

CITY OF PONCHATOULA, LOUISIANA
ANNUAL FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2005

Under provisions of state law, this report is a public document. A copy of the report has been submitted to the entity and other appropriate public officials. The report is available for public inspection at the Baton Rouge office of the Legislative Auditor and, where appropriate, at the office of the parish clerk of court.

Release Date

1/25/06

City of Ponchatoula, Louisiana
Annual Financial Statements
Fiscal Year Ended June 30, 2005
With Supplemental Information Schedules
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Durnin & James

CERTIFIED PUBLIC ACCOUNTANTS
A PROFESSIONAL CORPORATION
HAMMOND, LA

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Dennis E. James, CPA

Member
American Institute of CPA's
Society of Louisiana CPA's

November 7, 2005

Independent Auditor's Report

The Honorable Robert F. Zabbia, Mayor
and City Council Members
City of Ponchatoula, Louisiana

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Ponchatoula, Louisiana, as of and for the year ended June 30, 2005, which collectively comprise the City's basic financial statements as listed in the table of contents. We also have audited the financial statements of each of the City's non-major governmental funds presented in the accompanying combining and individual fund financial statements and schedules as of and for the year ended June 30, 2005 as listed in the table of contents. These financial statements are the responsibility of the City of Ponchatoula, Louisiana's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information as well as the aggregate non-major governmental funds of the City of Ponchatoula, Louisiana as of June 30, 2005, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of each non-major governmental fund of the City of Ponchatoula, Louisiana as of June 30, 2005 and the respective changes in financial position for the year ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 7, 2005, on our consideration of the City of Ponchatoula, Louisiana's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control and financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in conjunction with this report in considering the results of our audit.

The Honorable Robert F. Zabbia, Mayor
and City Council Members
City of Ponchatoula, Louisiana

The management's discussion and analysis on pages 4 – 14 and the Required Supplemental Information in Schedules 1 – 7 are not a required part of the basic financial statements, but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consist primarily of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the City of Ponchatoula, Louisiana's basic financial statements. The accompanying financial information, except for the Schedule of Insurance Coverage in Force (unaudited), listed in the Table of Contents as Supplementary Schedules, is presented for purposes of additional analysis and is not a required part of the basic financial statements of the City of Ponchatoula, Louisiana. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole. The Schedule of Insurance Coverage in Force (unaudited) has not been subjected to auditing procedures applied by us in the audit of the basic financial statements and, accordingly, we express no opinion on it.

Respectfully submitted,

A handwritten signature in cursive script that reads "Durnin & James, CPAs".

Durnin & James, CPAs
(A Professional Corporation)

Management's Discussion and Analysis

City of Ponchatoula, Louisiana
Management's Discussion and Analysis
June 30, 2005

As management of the City of Ponchatoula, Louisiana (the "City"), we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2005. This management discussion and analysis ("MD&A") is designed to provide an objective and easy to read analysis of the City's financial activities based on currently known facts, decisions, or conditions. It is designed to provide readers with a broad overview of City finances. It is also intended to provide readers with an analysis of the short and long-term activities of the City based on information presented in this financial report, as well as fiscal policies that have been adopted by the City. Specifically, this section is designed to assist the reader in focusing on significant financial issues, provide an overview of the City's financial activity, identify changes in the City's financial position (its ability to address the next and subsequent year challenges), identify any material deviations from the financial plan (the approved budget), and identify individual fund issues or concerns.

This is the fifth year that the City has presented its financial statements under the reporting model required by the Governmental Accounting Standards Board Statement Number 34. This reporting model significantly changed the presentation of financial data, and also the manner in which the information is recorded. Prior year comparative information for this reporting period has been included in these financial statements, along with a narrative of the changes expected from one year to the next.

As with other sections of this financial report, the information contained within this MD&A should be considered only a part of a greater whole. The readers of this statement should take time to read and evaluate all sections of this report, including the footnotes and the other Required Supplemental Information ("RSI,") that is provided in addition to this Management's Discussion and Analysis.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City's financial statements. The City's basic financial statements consist of the following components:

1. Government-Wide Financial Statements
2. Fund Financial Statements
3. Notes to the Financial Statements
4. Other Supplementary Information, which is in addition to the basic financial statements themselves.

1. Government-Wide Financial Statements

Government-wide financial statements are designed by GASB Statement No. 34 to change the way in which government financial statements are presented. It now provides readers with a concise "entity-wide" Statement of Net Assets and Statement of Activities, seeking to give the user of the financial statements a broad overview of the City's financial position and results of operations in a manner similar to a private-sector business.

- A. The *statement of net assets* presents information on all of the City's assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. The difference between the assets and liabilities is reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or weakening.
- B. The *statement of activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are

City of Ponchatoula, Louisiana
Management's Discussion and Analysis (Continued)
June 30, 2005

reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes).

The government wide financial statements further assist the reader in their evaluation by distinguishing functions of the City into:

- A. *Governmental activities* that are principally supported by taxes and intergovernmental revenues, and
- B. *Business-type activities* from other functions that are intended to recover all or a significant portion of their costs through user fees and charges.

Government-Wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. The following table provides a summary of the City's net assets for the current year as compared to the prior year. For a more detailed analysis, see the Statement of Net Assets on Exhibit A of this report.

	2005	2004	\$ Change	% Change
Assets				
Current and Other Assets	\$ 3,966,108	\$ 3,395,066	\$ 571,042	16.82%
Capital Assets	13,174,535	13,202,717	(28,182)	-0.21%
Total Assets	<u>\$ 17,140,643</u>	<u>\$ 16,597,783</u>	<u>\$ 542,860</u>	3.27%
Liabilities				
Current Liabilities	\$ 383,998	\$ 367,079	\$ 16,919	4.61%
Long-Term Debt	1,755,772	2,081,659	(325,887)	-15.66%
Total Liabilities	<u>\$ 2,139,770</u>	<u>\$ 2,448,738</u>	<u>\$ (308,968)</u>	-12.62%
Net Assets				
Invested in Capital Assets	\$ 11,556,061	\$ 11,121,058	\$ 435,003	3.91%
Restricted for Debt Service	309,107	222,606	86,501	38.86%
Unrestricted Net Assets	3,135,705	2,805,381	330,324	11.77%
Total Net Assets	<u>\$ 15,000,873</u>	<u>\$ 14,149,045</u>	<u>\$ 851,828</u>	6.02%

The City's assets exceeded its liabilities at the close of the most recent fiscal year by \$15,000,873 (net assets), an increase of \$851,828 from last year. Of the total amount, \$3,135,705 are unrestricted net assets. The City's net assets are comprised of \$7,793,017 from Governmental Activities and \$7,207,856 from Business Type Activities as shown on Exhibit A.

By far the largest portion of the City's net assets (77.04 percent) reflects its investment in capital assets (e.g., land, buildings, machinery & equipment, vehicles, City infrastructure, etc.), less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

City of Ponchatoula, Louisiana
Management's Discussion and Analysis (Continued)
June 30, 2005

An additional portion of the City's net assets (2.06 percent) represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$3,135,705 unrestricted net assets may be used to meet the government's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the City is able to report positive balances in all three categories of net assets, both for the government as a whole, as well as for its separate governmental and business-type activities. The same situation held true for the prior four fiscal years.

To further understand what makes up the changes in net assets, the following table provides a summary of the results of the City's operating activities for the current year as compared to the prior year. An analysis of the primary sources of these changes follows the table. For a more detailed analysis, see the Statement of Activities on Exhibit B of this report.

	<u>2005</u>	<u>2004</u>	<u>\$ Change</u>	<u>% Change</u>
Revenues				
Program Revenues:				
Charges for Services	\$ 1,648,077	\$ 1,496,629	\$ 151,448	10.12%
Grants	693,949	613,115	80,834	13.18%
General Revenues:				
Taxes	2,836,205	2,656,024	180,181	6.78%
Other	569,901	557,541	12,360	2.22%
Total Revenues	\$ 5,748,132	\$ 5,323,309	\$ 424,823	7.98%
Expenses:				
Governmental Activities	\$ 4,006,946	\$ 4,025,439	\$ (18,493)	-0.46%
Business-Type Activities	861,044	828,834	32,210	3.89%
Total Expenses	\$ 4,867,990	\$ 4,854,273	\$ 13,717	0.28%
Interfund Transfers	\$ 2,296	\$ -	\$ 2,296	-
Change in Net Assets	\$ 882,438	\$ 469,036	\$ 413,402	88.14%
Net Assets				
Beginning of the Year	\$ 14,135,153	\$ 13,680,009	\$ 455,144	3.33%
Prior Period Adjustment	(16,718)	-	(16,718)	-
End of the Year	\$ 15,000,873	\$ 14,149,045	\$ 851,828	6.02%

The City's revenue from charges for services increased by \$151,448 or 10.12%. This increase came mainly from fines collected from Police Department activities.

Operating grants increased by \$116,225. This increase was mainly due to a grant received to install sewer lines and extend a road in the City's Industrial Park. Taxes increased by \$180,181. Property taxes were reassessed in 2004, resulting in an increase of \$83,329. Sales taxes made up the majority of this 6.78% increase from the prior year.

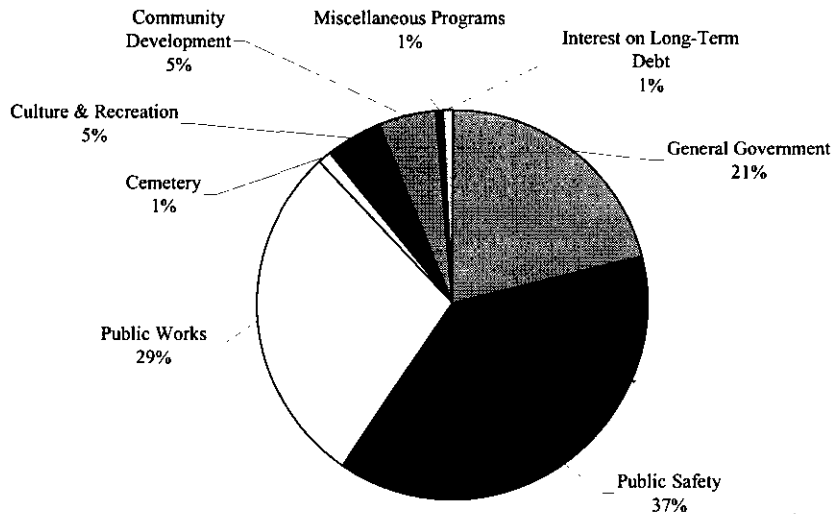
City of Ponchatoula, Louisiana
Management's Discussion and Analysis (Continued)
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Governmental Activities

The Governmental Activities of the City include General Government, Public Safety, Public Works, Cemetery, Culture & Recreation, Community Development, and Miscellaneous Programs. Sales taxes, property taxes, franchise taxes, licenses, permits, and fines fund most of these governmental activities.

Here we show the City's expenditures related to those functions typically associated with governments. In the chart below, General Government includes the following departments: Legislative (City Council), Judicial, Executive, Financial, Building, and other General Administration. Public Safety encompasses the Police, and Fire departments. Public Works is made up of the Street and Sanitation departments. Culture and Recreation contain the City's parks as well as Community Center activities. Community Development consists of Main Street and the Industrial Park.

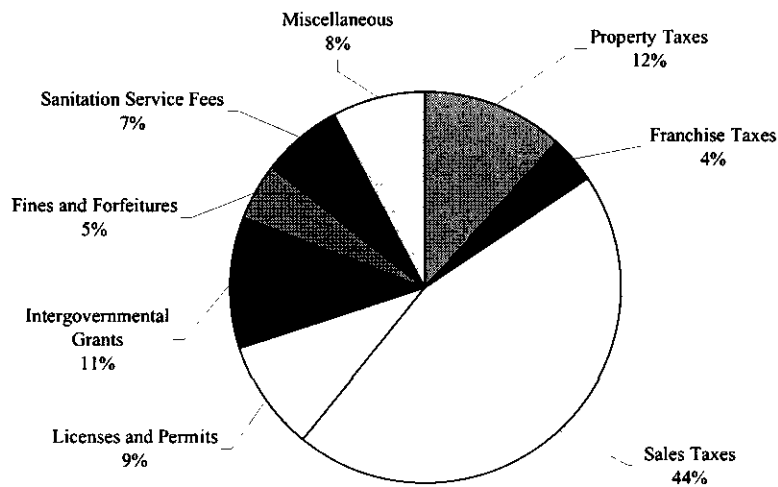
	<u>Amount</u>	<u>Percentage</u>
Governmental Activities Expenditures:		
General Government	\$ 846,174	21.12%
Public Safety	1,536,987	38.36%
Public Works	1,144,343	28.56%
Cemetery	44,445	1.11%
Culture & Recreation	184,347	4.60%
Community Development	193,919	4.84%
Miscellaneous Programs	27,889	0.70%
Interest on Long-Term Debt	28,117	0.70%
Other	725	0.03%
Total Governmental Activities	<u>\$ 4,006,946</u>	<u>100.00%</u>



City of Ponchatoula, Louisiana
Management's Discussion and Analysis (Continued)
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General revenues are those available for the City to use to pay for the governmental activities described above.

	<u>Amount</u>	<u>Percentage</u>
General Revenues:		
Property Taxes	\$ 537,271	11.61%
Franchise Taxes	184,661	3.99%
Sales Taxes	2,098,054	45.34%
Licenses and Permits	425,313	9.19%
Intergovernmental Grants	500,926	10.83%
Fines and Forfeitures	213,337	4.61%
Sanitation Service Fees	312,186	6.75%
Miscellaneous	355,393	7.70%
Total General Revenues	<u>\$ 4,627,141</u>	<u>100.00%</u>



Sales taxes are the largest revenue source for the City comprising 45.34% of total governmental revenue (See Pie Chart). Property taxes are the second largest revenue source for the City accounting for 11.61% of total governmental revenue. Intergovernmental grants accounted for 10.83% of the City's total governmental revenue. For the year ended June 30, 2005, taxes of 16.52 mills were levied on property inside of the City limits. An original 10-mill tax was passed in 1990 to be used for police pay, fire pay, and to purchase equipment for both departments. This tax was renewed by public election on July 15, 2000 and is reflected in the 2004 levied tax amounts.

City of Ponchatoula, Louisiana
Management's Discussion and Analysis (Continued)
June 30, 2005

	2003		2004	
	Taxes Levied	Mills	Taxes Levied	Mills
General Fund	\$ 173,869	6.52	\$ 208,272	6.52
Police Millage	160,002	6.00	191,662	6.00
Fire Millage	53,334	2.00	63,887	2.00
Equipment Millage	53,334	2.00	63,887	2.00
Total Property Taxes Levied	<u>\$ 440,539</u>	<u>16.52</u>	<u>\$ 527,708</u>	<u>16.52</u>

Business-Type Activities

The Business-Type Activities of the City are those that the City charges a fee to customers to help it cover all or most of the cost of certain services it provides. The City's water and sewer departments are reported here.

	<u>Operating Revenues</u>	
	<u>Water</u>	<u>Sewer</u>
Fiscal year ended June 30, 2004	\$ 281,640	\$ 772,341
Fiscal year ended June 30, 2005	<u>285,372</u>	<u>793,714</u>
Increase (Decrease) Between Years	<u>\$ 3,732</u>	<u>\$ 21,373</u>

	<u>Operating Expenses</u>	
	<u>Water</u>	<u>Sewer</u>
Fiscal year ended June 30, 2004	\$ 208,900	\$ 579,992
Fiscal year ended June 30, 2005	<u>209,370</u>	<u>620,784</u>
Increase (Decrease) Between Years	<u>\$ 470</u>	<u>\$ 40,792</u>

2. Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

- A. Governmental funds are used to account for most of the City's basic services and are reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on how money flows into and out of those funds, and the balances left at year-end that are available for spending. These funds are reported using modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

City of Ponchatoula, Louisiana
Management's Discussion and Analysis (Continued)
June 30, 2005

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for government funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's short-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities. These reconciliations are located on Exhibits C-1 and D-1.

The City maintains eleven individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund, 1965 Sales Tax Fund, and 1982 Sales Tax Funds, which are considered to be major funds. Data from the other governmental funds (Mausoleum Trust Fund, Fireman Pay Millage Fund, Policeman Pay Millage Fund, Equipment Millage Fund, 1997 LCDBG Economic Development Fund, 2002 LCDBG Housing Rehabilitation Fund, 1998 Sales Tax Sinking Fund, and 2003 Series ST Bond Sinking Fund) are combined into a single, aggregated presentation. These basic governmental fund financial statements can be found on Exhibits C and D of this report. The summary of the non-major funds is found on Schedules 4 and 5.

Financial Analysis of the Governmental Funds

As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$2,545,089, an increase of \$384,776 from June 30, 2004. In the General Fund, the unreserved fund balance is \$591,290, as is shown in Exhibit D.

At June 30, 2005 the City has fund balances over \$625,000 in each of the Sales Tax Funds to provide for unforeseen future emergencies such as natural disasters, decrease in economic conditions, emergency capital outlay requirements and other similar conditions.

The amounts in the Police and Fire Department Millage funds have been designated by public election to be used only towards salaries in these departments. The total amount collected this fiscal year will be transferred to the General Fund in the next fiscal year to pay a portion of the total salaries of the City's police and firemen. In addition, monies in the Equipment Millage Fund are only to be spent on equipment for the police and fire departments.

The reserved fund balance in governmental funds in the amount of \$132,353 indicate that these funds are not available for new spending because they have already been committed for debt service. The debt service funds' total fund balance is reserved for the payment of debt.

Changes in Fund Balance in the City's Major Funds:

Fund Balance Date	General Fund	1965 Sales Tax Fund	1982 Sales Tax Fund
June 30, 2004	\$ 671,551	\$ 516,839	\$ 487,053
June 30, 2005	591,290	631,995	716,794
Increase (Decrease) in Fund Balance	<u>\$ (80,261)</u>	<u>\$ 115,156</u>	<u>\$ 229,741</u>

City of Ponchatoula, Louisiana
Management's Discussion and Analysis (Continued)
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Individual fund data for each of the nonmajor governmental funds is provided in the form of combining statements in the Supplemental Information portion of this report, beginning on Schedule 4.

- B. **Proprietary Funds** – Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for its Water and Sewer departments. Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the Water and Sewer departments, which are considered to be major funds of the City. The basic proprietary fund financial statements can be found on Exhibits E, F, and G.
- C. **Fiduciary Funds** – Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statement because the resources of those funds are not available to support the City's other programs. The basis of accounting used for fiduciary funds is much like that used for proprietary funds. The City's only fiduciary fund is the Cemetery Endowment Fund. The basic fiduciary fund financial statements can be found on Exhibits H and I.

3. **Notes to the Financial Statements**

The notes to the financial statements provide additional information that is essential for a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statement can be found on the pages indicated in the table of contents.

4. **Other Supplementary Information**

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information. Required supplementary information can be found beginning on Schedule 1 of this report.

- A. **Budgetary Comparison Schedule** – The City adopts an annual appropriated budget for its general fund, two sales tax funds, and millage funds for police and fire department pay, as well as for equipment for both departments. A budgetary comparison statement has been provided for the City's major funds to demonstrate compliance, beginning on Schedule 1.
- B. **Budget Amendment Items include:**
 - 1. **Revenues:**
 - a. Anticipated increases in the following items determined that the budget should be amended by \$26,000 for property tax collections, \$61,750 for occupational licenses, as well as \$18,500 for franchise tax fees.
 - b. An expected \$37,500 Floodplain grant was not available by year-end. Also, \$26,725 in reimbursements for Industrial Park improvements were not received by June 30, 2005.
 - c. Garbage collection fees decreased by \$22,000 due to a reduction in the rates charged by Waste Management with a contract renewal.

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Management's Discussion and Analysis (Continued)
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- d. Fines and bonds increased by just over \$98,000 under the new Police Department administration and Mayor's Court judge.

2. Expenditures:

- a. Professional services for working with representatives from the University of New Orleans and City organizations towards a future plan for Ponchatoula were almost \$6,000.
- b. A contract Building Official instead of a City employee in this position saved that department \$26,000. Additionally \$50,000 of expenses budgeted for the Floodplain grant were not spent.
- c. Renovations to the Police Department of \$10,000 and refurbishments to City Hall of \$15,500 were not included in the original budget.
- d. The increasing cost of diesel and gasoline affected each City department in this fiscal year.
- e. In the Street Department, Salaries and related expenses decreased approximately \$50,000 with the retirement of the Street Superintendent. \$26,000 was added to supply expenses. Christmas decorations cost \$2,335 more and expenses for the Strawberry Festival were \$5,890 over the original budget amount.
- f. Garbage collection expenses decreased by \$22,000 due to a reduction in the rates charged by Waste Management with a contract renewal.
- g. New air conditioners replaced last year helped reduce electrical costs at the Community Center.
- h. There was no Parks Department employee. Salaries and related expenses of \$14,000 were reduced from the original budget.
- i. As mentioned above, in the Industrial Park the retainage for improvements was withheld, so \$26,725 was not spent.
- j. Renovations to the downtown Information Center of \$5,375 and permanent electrical work in the downtown areas of \$5,575 were added to the budget.
- k. Also, fees for accounting services decreased an additional \$1,600 in this fiscal year in addition to the \$9,000 reduction since 2002 as the City's Finance Manager took on more accounting responsibilities.

C. Analysis of Significant Budget Variances in the General Fund:

1. Revenues:

- a. Several projects that were to be funded by grants were not completed by the fiscal year end, resulting in lower than expected revenues accounted for in the miscellaneous column.

City of Ponchatoula, Louisiana
Management's Discussion and Analysis (Continued)
June 30, 2005

2. Expenditures:

- a. As explained above, some projects were not completed this fiscal year, resulting in reduced capital outlay expenditures.

Supplemental Information

- 1. Combining statements of the non-major Governmental Funds – Special Revenue (Mausoleum Trust Fund, Fireman Pay Millage Fund, Policeman Pay Millage Fund, Equipment Millage Fund, 1997 LCDBG Economic Development Fund, 2002 LCDBG Housing Rehabilitation Fund) and Debt Service Funds (1998 Sales Tax Sinking, 2003 Series ST Bond Sinking) have been provided beginning on Schedule 4.
- 2. Other Supplementary Schedules follow, starting on Schedule 6.

Capital Asset and Debt Administration

1. Capital Assets

The City's investment in capital assets, net of accumulated depreciation, as of June 30, 2005 in its governmental activities is \$6,096,197 and in business-type activities is \$7,078,338 which totals \$13,174,535 for the City. This investment in capital assets includes land, buildings and systems, improvements, machinery and equipment, park facilities, roads, highways and bridges. The total increase in the City's investment in capital assets for the current fiscal year was a \$36,515 increase for governmental activities and a \$64,697 decrease for business-type activities.

Major capital asset additions during the current fiscal year included the following:

- A. Various sewer line additions were constructed by the Sewer Fund at a cost of \$20,000.
- B. At the wastewater treatment plant, baffles were replaced at a cost of \$132,950.
- C. Vehicles were added at a value of \$5,995 to the Police fleet.
- D. \$28,376 of improvements and extensions were added by the Water Fund.

Additional information on the City's capital assets can be found in Note 6.

2. Long-Term Debt

At the end of the current fiscal year, the City had total bonded debt outstanding of \$1,755,772. Of this amount, \$50,772 comprises debt backed by a pledge of the excess revenues of the General Fund (and pledges of vehicles and equipment), \$340,000 payable from a pledge of the excess revenues of the General Fund, \$455,000 payable from a pledge of the City's 1982 1% Sales and Use Tax, and \$910,000 payable from a pledge of the City's sewer revenues.

The City's total debt decreased during the current fiscal year in the amount of \$325,887 made in principal payments toward the outstanding debt.

Additional information on the City's long-term debt can be found in Note 11.

City of Ponchatoula, Louisiana
Management's Discussion and Analysis (Continued)
June 30, 2005

Economic Factors and Next Year's Budget

The following factors were considered in preparing the City's budget for the 2005 fiscal year:

Again, as in the past, sales tax collections are the City's largest revenue source. In reviewing FY 2004's collections, it was noted that overall receipts exceeded the budget projection by \$100,000. Inasmuch, this years' projected collections were increased by that amount. Currently, even after the effects of Hurricane Katrina, our collections year to date are greater than the projections.

The City has incurred numerous expenses due to damage sustained by Hurricane Katrina. Our wastewater treatment facility alone sustained \$784,605 worth of damage. We expect FEMA to pay 90% of those costs and the City will be responsible for at least \$78,460 of that damage. Other expenses are currently being determined and could top an additional \$100,000.

As noted in the Mayor's 2005-2006 Budget Message, additional revenues generated by a 2% excise tax on Entergy bills was proposed to fund across the board pay raises for all City employees. This measure was not approved by the Council, leaving an approximate \$100,000 revenue shortfall. However, the pay raise was initiated in September 2005 and the budget will have to be adjusted to fund those raises through cuts in some proposed capital outlay projects.

The City expects several grants to be funded in early 2006 for various public works projects. These projects include sidewalk improvements, tree planting, sewer improvements, and the purchase of equipment.

During the budget planning process, funds have been designated for certain capital outlays. Those outlays include setting aside \$25,000 for developing a master plan and \$50,000 for establishing a vehicle acquisition and maintenance policy.

The City plans to continue work on its comprehensive planning program as funded by the Louisiana Division of Administration. Additional personnel are also anticipated for the Building Official's office in order to keep up with the enforcement of present ordinances. It is also anticipated that a heavier volume of development and building will be expected as a result of Hurricane Katrina.

The City has retained a consultant to evaluate its business operations. The goal is to establish better and more efficient operations in all City departments.

Requests for Information

This financial report is designed to provide a general overview of the City's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to Elizabeth LeSaichere, CPA, CMC, Finance Manager / City Clerk, 125 West Hickory Street, Ponchatoula, Louisiana, 70454.

Basic Financial Statements

City of Ponchatoula, Louisiana
Statement of Net Assets
June 30, 2005

Exhibit A

	Governmental Activities	Business-Type Activities	Total - (Memorandum Only)	
			2005	2004
Assets				
Cash & Cash Equivalents	\$ 1,651,542	\$ 468,771	\$ 2,120,313	\$ 1,445,649
Investments	518,621	195,358	713,979	876,120
Receivables, Net	453,998	87,954	541,952	565,571
Due from Other Governments	69,432	-	69,432	59,437
Internal Balances	912	1,473	2,385	9,310
Prepaid Insurance	(4,167)	-	(4,167)	717
Restricted Cash & Cash Equivalents	-	265,639	265,639	184,727
Restricted Investments	-	244,277	244,277	239,395
Capital Assets, Net	6,096,197	7,078,338	13,174,535	13,202,717
Other Assets	-	12,298	12,298	14,140
Total Assets	<u>\$ 8,786,535</u>	<u>\$ 8,354,108</u>	<u>\$ 17,140,643</u>	<u>\$ 16,597,783</u>
Liabilities				
Accounts Payable	\$ 87,783	\$ 11,199	\$ 98,982	\$ 89,612
Accrued Liabilities	42,220	18,274	60,494	27,936
Deferred Revenue	17,743	-	17,743	44,285
Internal Balances	-	2,385	2,385	9,310
Current Portion of Long-Term Obligations	233,741	125,000	358,741	344,623
Utility Deposits	-	204,394	204,394	195,936
Non-Current Portion of Long-Term Obligations	612,031	785,000	1,397,031	1,737,036
Total Liabilities	<u>\$ 993,518</u>	<u>\$ 1,146,252</u>	<u>\$ 2,139,770</u>	<u>\$ 2,448,738</u>
Net Assets				
Invested in Capital Assets, Net of Related Debt	\$ 5,250,425	\$ 6,305,636	\$ 11,556,061	\$ 11,121,058
Restricted for:				
Debt Service	134,023	175,084	309,107	222,606
Unrestricted Net Assets	<u>2,408,569</u>	<u>727,136</u>	<u>3,135,705</u>	<u>2,805,381</u>
Total Net Assets	<u>\$ 7,793,017</u>	<u>\$ 7,207,856</u>	<u>\$ 15,000,873</u>	<u>\$ 14,149,045</u>

The accompanying notes are an integral part of this statement.

City of Ponchatoula, Louisiana
Statement of Activities
For the Year Ended June 30, 2005

Exhibit B

		Program Revenues			Net (Expense) Revenue and Changes in Net Assets				
Functions / Programs	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total (Memorandum Only)		
							2005	2004	
Governmental Activities:									
General Government	\$ 846,174	\$ 32,989	\$ 6,898	\$ -	\$ (806,287)	\$ -	\$ (806,287)	\$ (675,806)	
Public Safety	1,536,987	213,337	235,948	18,449	(1,069,253)	-	(1,069,253)	(1,125,477)	
Public Works	1,144,343	317,620	47,273	-	(779,450)	-	(779,450)	(868,672)	
Cemetery	44,445	5,045	-	-	(39,400)	-	(39,400)	(38,015)	
Culture and Recreation	184,347	-	5,500	-	(178,847)	-	(178,847)	(208,809)	
Community Development	193,919	-	379,881	-	185,962	-	185,962	(28,737)	
Miscellaneous Programs	27,889	-	-	-	(27,889)	-	(27,889)	(19,623)	
Interest on Long-Term Debt	28,117	-	-	-	(28,117)	-	(28,117)	(44,278)	
Other	725	-	-	-	(725)	-	(725)	(13,269)	
Total Governmental Activities	\$ 4,006,946	\$ 568,991	\$ 675,500	\$ 18,449	(2,744,006)	\$ -	(2,744,006)	\$ (3,022,686)	
Business-Type Activities									
Water	\$ 209,370	\$ 285,372	\$ -	\$ -	\$ -	\$ 76,002	\$ 76,002	\$ 72,740	
Sewer	651,674	793,714	-	-	-	142,040	142,040	205,417	
Total Business-Type Activities	\$ 861,044	\$ 1,079,086	\$ -	\$ -	\$ -	\$ 218,042	\$ 218,042	\$ 278,157	
Total Primary Government	\$ 4,867,990	\$ 1,648,077	\$ 675,500	\$ 18,449	\$ (2,744,006)	\$ 218,042	\$ (2,525,964)	\$ (2,744,529)	
General Revenues:									
Taxes:									
Property Taxes					\$ 537,271	\$ -	\$ 537,271	\$ 453,942	
Franchise Taxes					184,661	-	184,661	181,138	
Sales Taxes					2,098,054	-	2,098,054	2,002,714	
Alcoholic Beverage Tax					16,219	-	16,219	18,230	
Occupational Licenses					392,324	-	392,324	368,729	
Investment Earnings					48,281	26,440	74,721	43,751	
Gain (Loss) on Sale of Assets					15,989	(524)	15,465	105,652	
Miscellaneous					87,391	-	87,391	39,409	
Transfers					2,296	-	2,296	-	
Total General Revenues and Transfers					\$ 3,382,486	\$ 25,916	\$ 3,408,402	\$ 3,213,565	
Change in Net Assets					\$ 638,480	\$ 243,958	\$ 882,438	\$ 469,036	
Net Assets - Beginning of the Year - Originally Stated					\$ 7,171,255	\$ 6,963,898	\$ 14,135,153	\$ 13,680,009	
Prior Period Adjustment					\$ (16,718)	\$ -	\$ (16,718)	\$ -	
Net Assets - Beginning of the Year - Restated					\$ 7,154,537	\$ 6,963,898	\$ 14,118,435	\$ 13,680,009	
Net Assets - End of the Year					\$ 7,793,017	\$ 7,207,856	\$ 15,000,873	\$ 14,149,045	

The accompanying notes are an integral part of this statement.

City of Ponchatoula, Louisiana
Balance Sheet
Governmental Funds
June 30, 2005

Exhibit C

	General Fund	1965 Sales Tax Fund	1982 Sales Tax Fund	Other Governmental Funds	Total Governmental Funds (Memorandum Only)	
					2005	2004
Assets						
Cash	\$ 587,346	\$ 195,200	\$ 299,010	\$ 569,986	\$ 1,651,542	\$ 1,255,617
Investments	-	251,304	232,293	35,024	518,621	512,243
Receivables, Net						
Ad Valorem Taxes	1,684	-	-	-	1,684	2,973
Franchise Taxes	34,954	-	-	-	34,954	32,271
Sales Taxes	-	186,705	186,705	-	373,410	363,478
Garbage Collection Fees	26,207	-	-	-	26,207	28,395
Notes	-	-	-	17,743	17,743	49,535
Other Receivables	-	-	-	-	-	375
Due from Other Funds	912	-	-	-	912	9,310
Due from Other Governments	68,120	-	-	1,312	69,432	59,437
Total Assets	\$ 719,223	\$ 633,209	\$ 718,008	\$ 624,065	\$ 2,694,505	\$ 2,313,634
Liabilities and Fund Balance						
Liabilities						
Accounts Payable	\$ 84,043	\$ 1,214	\$ 1,214	\$ 1,312	\$ 87,783	\$ 78,413
Accrued Liabilities	43,890	-	-	-	43,890	30,623
Deferred Revenue	-	-	-	17,743	17,743	44,285
Due to Other Funds	-	-	-	-	-	-
Total Liabilities	\$ 127,933	\$ 1,214	\$ 1,214	\$ 19,055	\$ 149,416	\$ 153,321
Fund Balance						
Reserved for Debt Service	\$ -	\$ -	\$ -	\$ 132,353	\$ 132,353	\$ 113,722
Unreserved, Designated	-	-	-	15,941	15,941	15,607
Unreserved, Reported in:						
General Fund	591,290	-	-	-	591,290	688,269
Special Revenue Fund	-	631,995	716,794	456,716	1,805,505	1,342,715
Total Fund Balance	\$ 591,290	\$ 631,995	\$ 716,794	\$ 605,010	\$ 2,545,089	\$ 2,160,313
Total Liabilities & Fund Balance	\$ 719,223	\$ 633,209	\$ 718,008	\$ 624,065	\$ 2,694,505	\$ 2,313,634

The accompanying notes are an integral part of this statement.

City of Ponchatoula, Louisiana
Reconciliation of the Balance Sheet to the Statement of Net Assets
Governmental Funds
For the Year Ended June 30, 2005

Exhibit C-1

Fund Balances - Total Governmental Funds (Exhibit C)	\$	2,545,089
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Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds.

Governmental Capital Assets		12,258,115
Less: Accumulated Depreciation		(6,161,918)

Prepaid insurance is not accrued and is therefore not reported in the governmental funds.

Prior Year Prepaid Insurance		(4,167)
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Accrued interest on long-term debt is not accrued and is therefore not reported in the governmental funds.

Prior Year Accrued Interest		9,011
Current Year Accrued Interest		(7,341)

Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the governmental funds.

Capital Lease Obligations		(50,772)
Public Improvement Bonds		(455,000)
Certificates of Indebtedness		(340,000)

Net Assets of Governmental Activities (Exhibit A)	\$	<u>7,793,017</u>
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The accompanying notes are an integral part of this statement.

City of Ponchatoula, Louisiana
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds

For the Year Ended June 30, 2005

	General Fund	1965 Sales Tax Fund	1982 Sales Tax Fund	Other Governmental Funds	Total Governmental Funds (Memorandum Only)	2005	2004
Revenues:							
Property Taxes	\$ 219,885	\$ -	\$ -	\$ 317,386	\$ 537,271	\$ 453,942	
Franchise Taxes	184,661	-	-	-	184,661	181,138	
Sales Taxes	-	1,049,027	1,049,027	-	2,098,054	2,002,714	
Licenses and Permits	425,313	-	-	-	425,313	393,549	
Intergovernmental Grants	306,191	-	-	194,735	500,926	570,950	
Fines and Forfeitures	213,337	-	-	-	213,337	81,597	
Sanitation Service Fees	312,186	-	-	-	312,186	322,777	
Miscellaneous	318,484	13,451	10,610	12,848	355,393	88,529	
Total Revenues	\$ 1,980,057	\$ 1,062,478	\$ 1,059,637	\$ 524,969	\$ 4,627,141	\$ 4,095,196	
Expenditures:							
Current:							
General Government	\$ 796,795	\$ 7,322	\$ 7,322	\$ 1,500	\$ 812,939	\$ 677,861	
Public Safety	1,447,442	-	-	-	1,447,442	1,365,692	
Public Works	909,595	-	-	-	909,595	973,733	
Cemetery	44,361	-	-	-	44,361	45,951	
Culture and Recreation	149,187	-	-	-	149,187	173,676	
Community Development	15,454	-	-	178,465	193,919	322,572	
Miscellaneous Programs	20,198	-	-	-	20,198	13,451	
Capital Outlay	410,842	-	-	22,050	432,892	375,589	
Debt Service:							
Principal	44,022	-	-	181,000	225,022	393,376	
Interest	3,468	-	-	26,319	29,787	57,372	
Other	-	-	-	725	725	13,269	
Total Expenditures	\$ 3,841,364	\$ 7,322	\$ 7,322	\$ 410,059	\$ 4,266,067	\$ 4,412,542	

(Continued)
20

Exhibit D
(Continued)

City of Ponchatoula, Louisiana
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2005

	General Fund	1965 Sales Tax Fund	1982 Sales Tax Fund	Other Governmental Funds	Total Governmental Funds (Memorandum Only) 2005	2004
Excess (Deficiency) of Revenues Over Expenditures	\$ (1,861,307)	\$ 1,055,156	\$ 1,052,315	\$ 114,910	\$ 361,074	\$ (317,346)
Other Financial Sources (Uses):						
Transfers In	\$ 1,829,876	\$ -	\$ -	\$ 224,324	\$ 2,054,200	\$ 2,473,531
Transfers Out	(86,954)	(940,000)	(822,574)	(202,376)	(2,051,904)	(2,289,531)
Sale of Capital Assets	15,989	-	-	-	15,989	105,652
Proceeds from Capital Leases	22,135	-	-	-	22,135	86,148
Total Other Financing Sources and Uses	\$ 1,781,046	\$ (940,000)	\$ (822,574)	\$ 21,948	\$ 40,420	\$ 375,800
Excess (Deficiency) of Revenues over Expenditures and Other Uses	\$ (80,261)	\$ 115,156	\$ 229,741	\$ 136,858	\$ 401,494	\$ 58,454
Fund Balance - Beginning of the Year - Originally Stated	\$ 688,269	\$ 516,839	\$ 487,053	\$ 468,152	\$ 2,160,313	\$ 2,101,859
Prior Period Adjustment	(16,718)	-	-	-	(16,718)	-
Fund Balance - Beginning of the Year - Restated	\$ 671,551	\$ 516,839	\$ 487,053	\$ 468,152	\$ 2,143,595	\$ 2,101,859
Fund Balance - End of the Year	\$ 591,290	\$ 631,995	\$ 716,794	\$ 605,010	\$ 2,545,089	\$ 2,160,313

The accompanying notes are an integral part of this statement.

City of Ponchatoula, Louisiana
Reconciliation of the Statement of Revenues,
Expenditures, and Changes in Fund Balances of
Governmental Funds to the Statement of Activities
For the Year Ended June 30, 2005

Exhibit D-1

Net Change in Fund Balances - Total Governmental Funds (Exhibit D)	\$	401,494
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Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation charged exceeded capital outlay in the current period.

Depreciation Expense		(396,296)
Capital Outlay		432,892

Governmental funds expense insurance payments when paid. In the statement of activities, only the portion applicable to the current year is expensed. The remaining is recorded in the statement of net assets as prepaid insurance.

Prior Year Prepaid Insurance		(4,167)
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Governmental funds expense interest payments on long-term debt when paid. In the statement of activities, the total interest applicable to the current year is expensed. As a result, accrued interest is expensed in the statement of activities.

Prior Year Accrued Interest		9,011
Current Year Accrued Interest		(7,341)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds because:

Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. This is the amount by which proceeds exceeded repayments.

Proceeds		(22,135)
Repayments		225,022

Change in Net Assets of Governmental Activities (Exhibit B)	\$	<u>638,480</u>
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The accompanying notes are an integral part of this statement.

City of Ponchatoula, Louisiana
Statement of Net Assets
Proprietary Funds
June 30, 2005

Exhibit E

	Business-Type Activities -		Total	
	Enterprise Funds		(Memorandum Only)	
	Water	Sewer	2005	2004
Assets				
Current Assets:				
Cash and Cash Equivalents	\$ 481,919	\$ (13,148)	\$ 468,771	\$ 190,032
Investments	195,358	-	195,358	363,877
Accounts Receivable, Net	24,365	63,589	87,954	88,544
Due from General Fund	1,473	-	1,473	-
Due from Sewer Fund	-	-	-	-
Total Current Assets	\$ 703,115	\$ 50,441	\$ 753,556	\$ 642,453
Non-Current Assets:				
Restricted Assets:				
Cash and Cash Equivalents:				
Water Fund - Meter Deposits	\$ 21,291	\$ -	\$ 21,291	\$ 19,605
Sewer Fund - Revenue	-	125,647	125,647	61,240
Sewer Fund - Sinking	-	68,688	68,688	78,530
Sewer Fund - Renewal & Replacement	-	50,013	50,013	25,352
Investments:				
Water Fund - Meter Deposits	178,895	-	178,895	175,320
Sewer Fund - Revenue	-	65,382	65,382	64,075
Total Restricted Assets	\$ 200,186	\$ 309,730	\$ 509,916	\$ 424,122
Capital Assets:				
Property, Plant, and Equipment, at Cost	\$ 2,775,911	\$ 7,543,606	\$ 10,319,517	\$ 10,140,215
Less: Accumulated Depreciation	(1,053,985)	(2,282,617)	(3,336,602)	(3,092,603)
Land	89,253	6,170	95,423	95,423
Total Capital Assets	\$ 1,811,179	\$ 5,267,159	\$ 7,078,338	\$ 7,143,035
Other Assets:				
Bond Issuance Costs	\$ -	\$ 15,559	\$ 15,559	\$ 15,559
Less: Accumulated Amortization	-	(3,261)	(3,261)	(1,419)
Total Other Assets	-	12,298	12,298	14,140
Total Non-Current Assets	\$ 2,011,365	\$ 5,589,187	\$ 7,600,552	\$ 7,581,297
Total Assets	\$ 2,714,480	\$ 5,639,628	\$ 8,354,108	\$ 8,223,750

(Continued)

City of Ponchatoula, Louisiana
Statement of Net Assets
Proprietary Funds
June 30, 2005

Exhibit E
(Continued)

	Business-Type Activities - Enterprise Funds		Total (Memorandum Only)	
	Water	Sewer	2005	2004
Liabilities and Net Assets				
Liabilities:				
Current Liabilities (Payable from Current Assets):				
Accounts Payable	\$ 2,853	\$ 8,346	\$ 11,199	\$ 11,199
Accrued Liabilities	-	8,628	8,628	-
Due to General Fund	-	2,385	2,385	9,310
Due to Water Fund	-	-	-	-
Total Current Liabilities (Payable from Current Assets)	\$ 2,853	\$ 19,359	\$ 22,212	\$ 20,509
Current Liabilities (Payable from Restricted Assets):				
Customers' Deposits	\$ 204,394	\$ -	\$ 204,394	\$ 195,936
Accrued Bond Interest	-	9,646	9,646	10,407
Sewer Revenue Bonds Payable	-	125,000	125,000	123,000
Total Current Liabilities (Payable from Restricted Assets)	\$ 204,394	\$ 134,646	\$ 339,040	\$ 329,343
Total Current Liabilities	\$ 207,247	\$ 154,005	\$ 361,252	\$ 349,852
Long-Term Liabilities:				
Sewer Revenue Bonds	\$ -	\$ 785,000	\$ 785,000	\$ 910,000
Total Long-Term Liabilities	\$ -	\$ 785,000	\$ 785,000	\$ 910,000
Total Liabilities	\$ 207,247	\$ 939,005	\$ 1,146,252	\$ 1,259,852
Net Assets:				
Invested in Capital Assets, Net of Related Debt	\$ 1,811,179	\$ 4,494,457	\$ 6,305,636	\$ 6,247,175
Restricted for Revenue Bond Retirement	-	175,084	175,084	95,790
Unrestricted	696,054	31,082	727,136	620,933
Total Net Assets	\$ 2,507,233	\$ 4,700,623	\$ 7,207,856	\$ 6,963,898
Total Liabilities and Net Assets	\$ 2,714,480	\$ 5,639,628	\$ 8,354,108	\$ 8,223,750

The accompanying notes are an integral part of this statement.

City of Ponchatoula, Louisiana
Statement of Revenues, Expenses, and
Changes in Fund Net Assets
Proprietary Funds
For the Year Ended June 30, 2005

Exhibit F

	Business-Type Activities -		Total	
	Enterprise Funds		(Memorandum Only)	
	Water	Sewer	2005	2004
Operating Revenues:				
Charges for Services	\$ 283,497	\$ 784,714	\$ 1,068,211	\$ 1,044,119
Connection Fees	1,875	-	1,875	2,562
Inspection Fees	-	9,000	9,000	7,300
Total Operating Revenues	\$ 285,372	\$ 793,714	\$ 1,079,086	\$ 1,053,981
Operating Expenses:				
Salaries and Employee Benefits	\$ 57,521	\$ 128,127	\$ 185,648	\$ 206,716
Supplies	26,754	13,016	39,770	43,886
Professional Fees	5,500	5,500	11,000	11,000
Repairs and Maintenance	4,721	158,820	163,541	113,584
Vehicle Expense	6,419	7,173	13,592	10,186
Utilities and Telephone	32,101	75,837	107,938	98,887
Depreciation and Amortization	62,174	191,175	253,349	249,211
Water Chlorination	-	-	-	4,425
EPA Testing	500	15,846	16,346	16,698
Insurance	576	-	576	9,810
Bad Debts	8,462	18,514	26,976	8,485
Sewer Rehabilitation	-	-	-	414
Miscellaneous	4,642	6,776	11,418	15,590
Total Operating Expenses	\$ 209,370	\$ 620,784	\$ 830,154	\$ 788,892
Net Operating Income (Loss)	\$ 76,002	\$ 172,930	\$ 248,932	\$ 265,089
Non-Operating Revenues (Expenses):				
Investment Interest	\$ 15,185	\$ 11,255	\$ 26,440	\$ 15,470
Interest Expense	-	(30,890)	(30,890)	(39,942)
Loss on Sale / Disposal of Assets	(159)	(365)	(524)	-
Capital Grants	-	-	-	53,010
Total Non-Operating Revenues (Expenses)	\$ 15,026	\$ (20,000)	\$ (4,974)	\$ 28,538
Net Income (Loss) Before Transfers	\$ 91,028	\$ 152,930	\$ 243,958	\$ 293,627

(Continued)

City of Ponchatoula, Louisiana
Statement of Revenues, Expenses, and
Changes in Fund Net Assets
Proprietary Funds
For the Year Ended June 30, 2005

Exhibit F
(Continued)

	Business-Type Activities -		Total	
	Enterprise Funds		(Memorandum Only)	
	Water	Sewer	2005	2004
Transfers to General Fund	\$ -	\$ -	\$ -	\$ (184,000)
Change in Net Assets	\$ 91,028	\$ 152,930	\$ 243,958	\$ 109,627
Net Assets - Beginning of the Year	\$ 2,416,205	\$ 4,547,693	\$ 6,963,898	\$ 6,854,271
Net Assets - End of the Year	\$ 2,507,233	\$ 4,700,623	\$ 7,207,856	\$ 6,963,898

The accompanying notes are an integral part of this statement.

City of Ponchatoula, Louisiana
Statement of Cash Flows
Proprietary Funds
For the Year Ended June 30, 2005

Exhibit G

	Business-Type Activities - Enterprise Funds		Total (Memorandum Only)	
	Water	Sewer	2005	2004
Cash Flows from Operating Activities:				
Receipts from Customers	\$ 274,922	\$ 777,778	\$ 1,052,700	\$ 1,038,088
Payments to Suppliers	(81,213)	(282,968)	(364,181)	(319,988)
Payments to Employees	(57,521)	(128,127)	(185,648)	(206,716)
Other Receipts (Payments)	8,458	7,867	16,325	(3,186)
Net Cash Provided by Operating Activities	\$ 144,646	\$ 374,550	\$ 519,196	\$ 508,198
Cash Flows from Noncapital Financing Activities:				
Transfers to Other Funds	\$ -	\$ -	\$ -	\$ (184,000)
(Increase) Decrease in Due to / from Other Funds	(1,845)	(6,553)	(8,398)	14,449
Net Cash (Used) by Noncapital Financing Activities	\$ (1,845)	\$ (6,553)	\$ (8,398)	\$ (169,551)
Cash Flows from Capital and Related Financing Activities:				
Capital Grants Received	\$ -	\$ -	\$ -	\$ 53,010
Purchase of Equipment	(34,372)	(152,962)	(187,334)	(295,000)
Bond Issuance Costs	-	-	-	(15,559)
Principal Paid on Revenue Bonds	-	(123,000)	(123,000)	(312,000)
Interest Paid on Revenue Bonds	-	(30,890)	(30,890)	(39,942)
Net Cash (Used) by Capital and Related Financing Activities	\$ (34,372)	\$ (306,852)	\$ (341,224)	\$ (609,491)
Cash Flows from Investing Activities:				
Interest Earned on Investments	\$ 15,185	\$ 11,255	\$ 26,440	\$ 15,470
Proceeds from Sales or Maturities of Investments	164,944	-	164,944	220,160
Purchase of Investments	-	(1,307)	(1,307)	(4,205)
Net Cash Provided by Investing Activities	\$ 180,129	\$ 9,948	\$ 190,077	\$ 231,425
Net Increase (Decrease) in Cash & Cash Equivalents	\$ 288,558	\$ 71,093	\$ 359,651	\$ (39,419)
Cash - Beginning of the Year	\$ 214,652	\$ 160,107	\$ 374,759	\$ 414,178
Cash - End of the Year	\$ 503,210	\$ 231,200	\$ 734,410	\$ 374,759
Reconciliation of Cash Accounts:				
Unrestricted	\$ 481,919	\$ (13,148)	\$ 468,771	\$ 190,032
Restricted	21,291	244,348	265,639	184,727
	<u>\$ 503,210</u>	<u>\$ 231,200</u>	<u>\$ 734,410</u>	<u>\$ 374,759</u>

(Continued)

City of Ponchatoula, Louisiana
Statement of Cash Flows
Proprietary Funds
For the Year Ended June 30, 2005

Exhibit G
(Continued)

	Business-Type Activities - Enterprise Funds		Total (Memorandum Only)	
	Fund	Fund	2005	2004
<i>Reconciliation of Operating Income (Loss) to Net Cash</i>				
<i>Provided (Used) by Operating Activities:</i>				
Operating Income (Loss)	\$ 76,002	\$ 172,930	\$ 248,932	\$ 265,089
<i>Adjustments to Reconcile Operating Income to Net</i>				
Cash Provided by Operating Activities:				
Depreciation and Amortization	62,174	191,175	253,349	249,211
Changes in Assets and Liabilities:				
(Increase) Decrease in Accounts Receivable	(1,988)	(6,422)	(8,410)	(7,408)
Increase (Decrease) in Allowance for Bad Debts	-	9,000	9,000	-
Increase (Decrease) in Accounts Payable	-	-	-	4,492
Increase (Decrease) in Accrued Liabilities	-	8,628	8,628	-
Increase (Decrease) in Customer Deposits	8,458	-	8,458	8,478
Increase (Decrease) in Accrued Bond Interest	-	(761)	(761)	(11,664)
Net Cash Provided by Operating Activities	<u>\$ 144,646</u>	<u>\$ 374,550</u>	<u>\$ 519,196</u>	<u>\$ 508,198</u>
 <i>Supplemental Information:</i>				
Interest Paid	<u>\$ -</u>	<u>\$ 30,890</u>	<u>\$ 30,890</u>	<u>\$ 39,942</u>

The accompanying notes are an integral part of this statement.

City of Ponchatoula, Louisiana
Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2005

Exhibit H

	Nonexpendable Trust		
	Cemetery	Total	
	Endowment Fund	(Memorandum Only) 2005	2004
Assets			
Cash	\$ 9,608	\$ 9,608	\$ 8,978
Investments	103,405	103,405	101,338
Accrued Interest Receivable	259	259	259
 Total Assets	 \$ 113,272	 \$ 113,272	 \$ 110,575
 Liabilities and Net Assets			
Liabilities			
Due to General Fund	\$ -	\$ -	\$ -
Total Liabilities	-	-	-
 Net Assets			
Held in Trust -			
Reserved for Endowment Principle	\$ 113,013	\$ 113,013	\$ 110,316
Held in Trust -			
Reserved for Cemetery Maintenance	259	259	259
Total Net Assets	\$ 113,272	\$ 113,272	\$ 110,575
 Total Liabilities and Net Assets	 \$ 113,272	 \$ 113,272	 \$ 110,575

The accompanying notes are an integral part of this statement.

City of Ponchatoula, Louisiana
Statement of Changes in Fiduciary Net Assets
Fiduciary Funds
For the Year Ended June 30, 2005

Exhibit I

	Nonexpendable Trust		
	Cemetery	Total	
	Endowment Fund	(Memorandum Only) 2005	2004
Additions:			
Contributions	\$ 2,700	\$ 2,700	\$ 3,025
Investment Interest	2,293	2,293	1,060
Total Additions	\$ 4,993	\$ 4,993	\$ 4,085
Deductions:			
Benefits - Cemetery Maintenance	\$ -	\$ -	\$ 1,559
Transfers to General Fund	2,296	2,296	-
Miscellaneous Deductions	-	-	-
Total Deductions	2,296	2,296	1,559
Change in Net Assets	\$ 2,697	\$ 2,697	\$ 2,526
Net Assets - Beginning of the Year	\$ 110,575	\$ 110,575	\$ 108,049
Net Assets - End of the Year	\$ 113,272	\$ 113,272	\$ 110,575

The accompanying notes are an integral part of this statement.

Notes to Financial Statements

City of Ponchatoula, Louisiana
Notes to Financial Statements
June 30, 2005

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City of Ponchatoula, Louisiana
Notes to Financial Statements
June 30, 2005

Narrative Profile

The City of Ponchatoula, Louisiana (the "City") was first incorporated on February 12, 1861. Upon the City's acceptance of the provisions of Act 136 enacted on July 29, 1898, it became governed under the Lawrason Act. The City operates under a Mayor – City Council form of government. The Mayor is elected for a four-year term. The City Council consists of five council members, each elected from a separate district in the City and each serving a four-year term of office. The Mayor and each member of the City Council are compensated for their service to the City. The City is located north of New Orleans, Louisiana and east of Baton Rouge, Louisiana at the intersections of Interstate Highway 55 and Interstate Highway 12. The population of the City according to the most recent census taken in 2000 is 5,180. The current number of commercial and residential utility customers served is 2,236. The City provides the following services: public safety (police and fire), streets, drainage, sanitation, culture / recreation, public improvements, planning and zoning, and general and administrative services. Other services include water and sewer utilities. The City presently maintains 35 miles of roads and streets. The City has 54 full-time employees.

The accounting and reporting policies of the City conform to generally accepted accounting principles as applicable to governments. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. Such accounting and reporting procedures also conform to the requirements of Louisiana Revised Statutes 24:517 and to the guides set forth in the *Louisiana Municipal Audit and Accounting Guide*, and to the industry audit guide, *Audits of State and Local Governmental Units*.

1. Summary of Significant Accounting Policies

A. Financial Reporting Entity

Section 2100 of the GASB Codification of Governmental Accounting and Financial Reporting Standards (GASB Codification) established criteria for determining the governmental reporting entity and component units that should be included with the reporting entity. For financial reporting purposes, in conformance with GASB Codification Section 2100, the City includes all funds which are controlled by or dependent on the City which was determined on the basis of oversight responsibility, including accountability for fiscal and budget matters, designation of management or governing authority, and authority to issue debt. Certain units of local government over which the City exercises no oversight responsibility, such as the parish council, parish school board, other independently elected officials, and other municipalities within the parish, are excluded from the accompanying financial statements. These units of government are considered separate reporting entities and issue financial statements separate from those of the City.

Management's Discussion and Analysis – GASB Statement No. 34 requires that financial statements be accompanied by a narrative introduction and analytical overview of the government's financial activities in the form of "Management's Discussion and Analysis" (MD&A). This analysis is similar to analysis the private sector provides in their annual reports.

Government-Wide Financial Statements – The reporting model includes financial statements prepared using full accrual accounting for all of the government's activities. This approach includes not just current assets and liabilities (such as cash and accounts payable), but also capital assets and long-term liabilities (such as buildings and infrastructure, including bridges and roads, and general obligation debt). Accrual accounting also reports all of the revenues and cost of providing services each year, not just those received or paid in the current year or soon thereafter.

City of Ponchatoula, Louisiana
Notes to Financial Statements (Continued)
June 30, 2005

Schedule of Net Assets – The Schedule of Net Assets is designed to display the financial position of the primary government (government and business-type activities) and its discretely presented component units. Governments report all capital assets, including infrastructure, in the government-wide Schedule of Net Assets and report depreciation expense – the cost of “using up” capital assets – in the Schedule of Activities. The net assets of a government are broken down into three categories – 1) invested in capital assets, net of related debt; 2) restricted; and 3) unrestricted.

Schedule of Program Activities – The government-wide Statement of Activities reports expenses and revenues in a format that focuses on the cost of each of the government’s functions. The expense of individual functions is compared to the revenues generated directly by the function (for instance, through user charges or intergovernmental grants).

Budgetary Comparison Schedules – Demonstrating compliance with the adopted budget is an important component of a government’s accountability to the public. Many citizens participate in one way or another in the process of establishing the annual budgets of state and local governments, and have a keen interest in following the actual financial process of their governments over the course of the year. Many governments revise their budgets over the course of the year for a variety of reasons. As a result, the City’s original budget is shown along with the comparison of the final budget and actual results.

As required by the accounting principles generally accepted in the United States, these financial statements present the primary government and its component units, entities for which the government is considered financially accountable. Blended component units, although legally separate entities are, in substance, part of the government’s operations and so data from these units are combined with data of the primary government. The City has no component units.

B. Government-Wide and Fund Accounting

The basic financial statements include both government-wide (based on the City as a whole) and fund types (the total of all funds of a particular type). Under the current reporting model, the focus is on either the City as a whole or major individual funds (within the fund financial statements). Both the government-wide and fund financial statements (within the basic financial statements) categorize primary activities as either governmental or business-type. In the government-wide Statement of Net Assets, both the governmental and business-type activities columns (a) are presented on a consolidated basis by column, and (b) are reflected, on a full accrual, economic resource basis, which incorporates long-term assets and receivables as well as long-term debt and obligations. The City generally first uses restricted assets for expenses incurred for which both restricted and unrestricted assets are available. The City may defer the use of restricted assets based on a review of the specific transaction.

The government-wide Statement of Activities reflects both the gross and net cost per functional category (public safety, public works, etc.) that are otherwise being supported by general government revenues (property taxes, sales and use taxes, intergovernmental revenues, etc.). The Statement of Activities reduces gross expenses (including depreciation) by related program revenues, operating and capital grants, and contributions. The program revenues must be directly associated with the function (public safety, public works, etc.) or a business-type activity. The City does not allocate indirect expenses. The operating grants include operating-specific and discretionary (either operating or capital) grants while the capital grants column reflects capital-specific grants.

The governmental funds major fund statements in the fund financial statements are presented on a current financial resource and modified accrual basis of accounting. These funds are normally budgeted in this manner. Since the governmental fund statements are presented on a different measurement focus and

City of Ponchatoula, Louisiana
Notes to Financial Statements (Continued)
June 30, 2005

basis of accounting than the government-wide statements' governmental column, a reconciliation is presented which briefly explains the adjustment necessary to reconcile funds based on financial statements with the governmental column of the government-wide presentation.

The City's fiduciary funds are presented in the fund financial statements, by type (private purpose or agency). Since, by definition, these assets are being held for the benefit of a third party (other local governments, private parties, etc.) and cannot be used to address activities or obligations of the government, these funds are not incorporated into the government-wide statements.

The focus of the reporting model is on the City as a whole and the fund financial statements, including the major individual funds of the governmental and business-type categories, as well as the fiduciary funds, (by category) and the component units. Each presentation provides valuable information that can be analyzed and compared (between years and between governments) to enhance the usefulness of the information.

In the fund financial statements, financial transactions and accounts of the City are organized on the basis of funds. The operation of each fund is considered to be an independent fiscal and separate accounting entity, with a self-balancing set of accounts recording cash and / or other financial resources together with all related liabilities and residual equities or balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations.

Governmental Funds

Governmental funds are used to account for all or most of the City's general activities, including the collection and disbursement of specific or legally restricted monies, the acquisition or construction of general fixed assets, and the servicing of general long-term debt. Governmental funds include:

General Fund – The General Fund is the general operating fund of the City. This fund is used to account for all financial transactions and resources except for those required to be accounted for in another fund. Revenues are derived primarily from property and other local taxes, state and federal distributions, licenses, permits, charges for services, and interest income. A part of the General Fund's revenues is transferred to other funds.

Special Revenue Funds – Special Revenue Funds are used to account for the proceeds of specific revenue sources (other than major capital projects) that are restricted by legal and regulatory provisions to finance specific activities. The 1965 Sales Tax Fund and 1982 Sales Tax Fund are considered to be major funds. The Fireman Pay Millage Fund, Policeman Pay Millage Fund, Equipment Millage Fund, Mausoleum Trust Fund, 1997 LCDBG Economic Development Fund, and 2002 LCDBG Housing Rehabilitation Fund are considered to be nonmajor funds.

Debt Service Funds – Debt Service Funds account for resources set aside to pay interest and principal on long-term debt. The 1998 Sales Tax Sinking Fund and 2003 Series ST Bond Sinking Fund are considered to be nonmajor funds for reporting purposes.

Proprietary Funds

Proprietary Funds are used to account for activities that are similar to those often found in the private sector. All assets, liabilities, equities, revenues, expenses, and transfers relating to the government's business activities are accounted for through proprietary funds. The measurement focus is on the

City of Ponchatoula, Louisiana
Notes to Financial Statements (Continued)
June 30, 2005

determination of net income, financial position, and cash flows. Operating expenses include costs of services as well as materials, contracts, personnel, and dedication. In accordance with Governmental Accounting Standards Board (GASB Statement No. 20), the City has elected to follow GASB statements issued after November 30, 1989, rather than the Financial Accounting Standards Board, in accounting for proprietary funds.

Enterprise Funds – Enterprise Funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed primarily through user charges, or (b) where the governing body has decided the periodic determination of revenues earned, expenses incurred, and / or net income is appropriate for capital maintenance, public policy, management control, accountability, and other purposes. The City's Water Enterprise Fund and Sewer Enterprise Fund account for the operations of providing water services and sewer services, respectively.

Fiduciary Funds

Fiduciary funds are used to account for assets held by the City in a trustee capacity or as an agent for individuals, private organizations, and other governments. Fiduciary funds include:

Nonexpendable Trust Fund – The Nonexpendable Trust Fund (Cemetery Endowment Fund) is used to account for assets held by the City in a trustee capacity. The Nonexpendable Trust Fund is accounted for in essentially the same manner as a proprietary fund since capital maintenance is critical. Fiduciary funds are not included in the government-wide statements.

C. Basis of Accounting

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All government funds, including General, Special Revenue, and Debt Service Funds, are accounted for using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet in the funds statements. Long-term assets and long-term liabilities are included in the government-wide statements. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

The government-wide statements of net assets and statements of activities, all proprietary funds, and private purpose trust funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these activities are either included on the balance sheet or on the statement of fiduciary net assets. Proprietary fund-type operating statements present increases (e.g., revenues) and decreases (e.g., expenses) in net total assets.

The fund financial statements of the General, Special Revenue, Debt Service, and Agency Funds are maintained and reported on the modified accrued basis of accounting. Under this method of accounting, revenues are recognized in the period in which they become measurable and available. With respect to real and personal property tax revenue and other local taxes, the term "available" is limited to collection within forty-five days of the fiscal year end. Levies made prior to the fiscal year-end but which are not available are deferred. Interest income is recorded as earned. Federal and State reimbursement-type grants are recorded as revenue when related eligible expenditures are incurred. Expenditures, other than accrued interest on long-term debt, are recorded when the fund liability is incurred.

City of Ponchatoula, Louisiana
Notes to Financial Statements (Continued)
June 30, 2005

The statements of net assets, statements of activities, financial statements of the Proprietary Funds and Fiduciary Funds (except for agency funds) are presented on the accrual basis of accounting. Under this method of accounting, revenues are recognized when earned and expenses are recorded when liabilities are incurred without regard to receipt or disbursement of cash.

D. Budgets and Budgetary Accounting

The City follows these procedures in establishing the budgetary data reflected in the financial statements:

1. The Finance Manager / City Clerk prepares a proposed budget and submits this budget to the Mayor and City Council no later than fifteen days prior to the beginning of each fiscal year. The proposed budget for the year ended June 30, 2005 was submitted to the City Council on June 10, 2004.
2. A summary of the proposed budget is published and the public is notified that the proposed budget is available for public inspection. At the same time, a public hearing is called. The proposed budget for the year ended June 30, 2005 was published timely in the official journal.
3. A public hearing is held on the proposed budget at least ten days after publication of the call for the hearing. A public hearing was held on the proposed budget for the year ended June 30, 2005 on June 28, 2004.
4. After the holding of the public hearing and completion of all action necessary to finalize and implement the budget, the budget is adopted through passage of an ordinance prior to the commencement of the fiscal year for which the budget is being adopted. The proposed budget for the year ended June 30, 2005 was adopted as Ordinance No. 600 on June 28, 2004.
5. Budgetary amendments involving the transfer of funds from one department, program, or function to another, or involving increases in expenditures resulting from revenues exceeding amounts estimated require the approval of the City Council. The budget for the year ended June 30, 2005, was amended on June 28, 2005 by Ordinance No. 611 .
6. Budgets for the General and Special Revenue Funds are adopted on a basis consistent with generally accepted accounting principles (GAAP). Budgeted amounts are as originally adopted, or as amended by the City Council.
7. The budgets are integrated into the accounting system, and the budgetary data, as presented in the financial statements for all funds with annual budgets, compare the expenditures with the amended budgets. All budgets are presented on the modified accrual basis of accounting. Accordingly, the Budgetary Comparison Schedule for the General and Special Revenue Funds presents actual expenditures in accordance with the accounting principles generally accepted in the United States on a basis consistent with the legally adopted budgets as amended. Unexpended appropriations on annual budgets lapse at the end of each fiscal year.

E. Cash and Investments

Cash includes amounts in demand deposits, interest bearing demand deposits, and money market accounts. Under state law, the City may deposit funds in demand deposits, interest bearing demand deposits, money market accounts, or time deposits with state banks organized under Louisiana law and national banks having their principal offices in Louisiana. Under state law, the City may invest in United States bonds, treasury notes, or certificates. These are classified as investments if their original maturities

City of Ponchatoula, Louisiana
Notes to Financial Statements (Continued)
June 30, 2005

exceed 90 days; however, if the original maturities are 90 days or less, they are classified as cash. Investments are stated at cost.

The City maintains a cash investment pool (Central Depository Account) that is used primarily by the General Fund and the Water and Sewer Enterprise Funds. Each fund's portion of this cash pool is displayed on the combined balance sheet as cash. Investments are separately held by several of the City's funds.

F. Allowance for Uncollectible Accounts

The City calculates its allowance for uncollectible accounts using historical collection data and, in certain cases, specific account analysis.

G. Short-Term Interfund Receivables / Payables

During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. These receivables and payables are classified as due from / due to other funds on the balance sheet. Short-term interfund loans are classified as interfund receivables / payables.

H. Advances to Other Funds

The noncurrent portion of long-term interfund receivables are reported as advances and are offset equally by a fund balance reserve account, which indicates that they do not constitute expendable available financial resources and, therefore, are not available for appropriation.

I. Inventory

The City utilizes the "purchase method" of accounting for supplies whereby expendable operating supplies are recognized as expenditures when purchased. The City did not record any inventory at June 30, 2005, as the amount is not material.

J. Restricted Assets

Certain proceeds of enterprise fund revenue bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the balance sheet because their use is limited by applicable bond covenants. Applicable bond covenants include adequacy of (1) sewer rates and coverage requirements; (2) annual review of user fees; (3) records, accounts and annual audit requirement; (4) insurance and fidelity bonds; and (5) various miscellaneous covenants regarding appointment of engineer, utilization of funds and other provisions.

K. Capital Assets

Capital outlays are recorded as expenditures of the General and Special Revenue Funds and as assets in the government-wide financial statements to the extent the City's capitalization threshold is met. In accordance with GASB Statement No. 34, infrastructure has been capitalized retroactively to 1980. Although an exception exists for local governments with annual revenues of less than \$10 million, the City has elected to report its infrastructure retroactively. Interest incurred during construction is capitalized on a government-wide basis. Interest attributable to capitalized assets as of June 30, 2005 was immaterial. Depreciation is recorded on general fixed assets on a government-wide basis. Capital outlays of the Proprietary Funds are recorded as fixed assets and depreciated over their estimated useful lives on a

City of Ponchatoula, Louisiana
Notes to Financial Statements (Continued)
June 30, 2005

straight-line basis on both the funds basis and the government-wide basis. All fixed assets are valued at historical cost or estimated historical cost if actual cost was not available. Donated fixed assets are valued at their estimated fair market value on the date donated. Of the \$5,685,638 in retroactive infrastructure capitalized at June 30, 2001, the entire amount was estimated using current replacement cost for a similar asset and deflating this cost through the use of price indices to the acquisition year. The City does not capitalize historical treasures or works of art. The City maintains many items and buildings of historical significance. The City does not require that the proceeds from the sale of historical treasures or works of art be used to acquire other items for the collection.

Maintenance, repairs, and minor equipment are charged to operations when incurred. Expenditures that materially change capacities or extend useful lives are capitalized. Upon sale or retirement of land, buildings, and equipment, the cost and related accumulated depreciation, if applicable, are eliminated from the respective accounts and any resulting gain or loss is included in the results of operations.

L. Compensated Absences

The City's policy is to allow employees' vacation pay based on employee classification and length of service. Sick leave is provided for by the City but is noncumulative and the employee's right to unused sick leave does not vest. Vacation pay is cumulative with any unpaid amounts paid to employees upon separation from the City's service.

The current portions of the governmental funds' compensated absences liabilities are recorded as other liabilities in the General, Special Revenue, and Enterprise Funds. The current and noncurrent portions are recorded in the government-wide financial statements.

M. Long-Term Obligations

In the government-wide financial statements, debt principal payments of both government and business-type activities are reported as decreases in the balance of the liability on the Statement of Net Assets. In the fund financial statements, however, debt principal payments of governmental funds are recognized as expenditures when paid.

N. Fund Equity

Government-Wide Statements

Equity is classified as net assets and displayed in three components:

1. Invested in capital assets, net of related debt – Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
2. Restricted net assets – Consists of net assets with constraints placed on the use either by:
 - a. External groups such as creditors, grantors, contributors, or laws or regulations of other governments, or
 - b. Law through constitutional provisions or enabling legislation.

City of Ponchatoula, Louisiana
Notes to Financial Statements (Continued)
June 30, 2005

3. Unrestricted net assets – All other net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

Fund Statements

Governmental fund equity is classified as fund balance. Fund balance is further classified as reserved and unreserved, with unreserved split between designated and undesignated. Proprietary fund equity is classified the same as in the government-wide statements. See Note 19 for additional disclosures.

O. Interfund Transactions

Permanent re-allocation of resources between funds of the reporting entity are classified as interfund transfers. For the purposes of the statement of activities, all interfund transfers between individual governmental funds have been eliminated.

P. Sales and Use Taxes

Sales taxes are collected by the Tangipahoa Parish School Board and remitted to the City in the month following the receipt by the School Board. The School Board receives sales taxes approximately one month after collection by vendors. Sales taxes collected by the School Board in June and July (which represent May and June sales) and received by the City in July and August have been accrued and are recorded as “Accounts Receivable.” The following are the sales taxes in effect as of June 30, 2005:

1. The original 1965 1% sales and use tax passed by the voters is to be used for extending, acquiring, maintaining, constructing, and improving drainage, streets, sidewalks, public buildings, fire department stations and equipment, garbage collection equipment and facilities, and the payment of salaries of certain municipal employees. There is no expiration date on this sales and use tax.
2. The additional 1982 1% sales and use tax passed by the voters is to be used for extending, acquiring, maintaining, constructing, and improving sewers and sewer facilities, waterworks facilities, drainage and drain facilities, and for any other lawful corporate purpose of the City. There is no expiration date on this sales and use tax.

The City, through its governing authority, adopted a resolution on February 9, 1995, authorizing the issuance of \$1,725,000 of Public Improvement Bonds and entered into certain covenants in connection with the security and payment of said bonds. In that resolution, the proceeds of the 1982 1% sales and use tax were irrevocably and irrepealably pledged and dedicated in an amount sufficient for payment of the bonds authorized and interest as they become due and for other purposes. On August 14, 2003, the City, through its governing authority, adopted Ordinance No. 591 issuing \$617,000 Sales Tax Refunding Bonds, Series 2003, to refund the original Public Improvement Bonds. Proceeds from the 1982 sales and use tax remain pledged for the security of the Sales Tax Refunding Bonds, Series 2003, until paid in full in 2009.

Q. Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

City of Ponchatoula, Louisiana
Notes to Financial Statements (Continued)
June 30, 2005

2. Stewardship, Compliance, and Accountability

A. Budgetary Information

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the general fund and all special revenue funds except the 1997 LCDBG Economic Development Fund and the 2002 LCDBG Housing Rehabilitation Fund, which were not budgeted. All annual appropriations lapse at fiscal year end. See Note 3 regarding operating budgets.

The City was in compliance with the Local Budget Act except for the LCDBG grants referred to above. See Note 1-D for the procedures the City follows regarding budgets and budgetary accounting.

B. Deposits and Investment Laws and Regulations

In accordance with state law, all uninsured deposits of municipal funds in financial institutions must be secured with acceptable collateral valued at the lower of market or par. As reflected in Note 4 regarding cash, cash equivalents, and investments, the City was in compliance with the deposit and investment laws and regulations.

C. Deficit Fund Equity

As of June 30, 2005, no City funds had deficit fund equities.

D. Compliance with Bond and Certificate of Indebtedness Covenants

1. Compliance with Sales Tax Refunding Bond Covenants

As of June 30, 2005, the City was in compliance with all Sales Tax Refunding Bond Covenants. See Note 13 for a further discussion of the Sales Tax Refunding Bond Covenants.

2. Compliance with Sewer Revenue Refunding Bond Covenants

As of June 30, 2005, the City was in compliance with all Sewer Revenue Refunding Bond Covenants. See Note 15 for a further discussion of the Sewer Revenue Refunding Bond Covenants.

3. Compliance with Certificates of Indebtedness Covenants

As of June 30, 2005, the City was in compliance with all Certificates of Indebtedness Covenants. See Note 16 for a further discussion of the Certificates of Indebtedness Covenants.

3. Operating Budgets

The City did not adopt an operating budget for the 1997 LCDBG Economic Development Fund and the 2002 LCDBG Housing Rehabilitation Fund, as required by the local government budget act. Total revenues for these funds for the fiscal year ended June 30, 2005 totaled \$178,465. Total expenditures for these funds for the year ended June 30, 2005 totaled \$178,465.

City of Ponchatoula, Louisiana
Notes to Financial Statements (Continued)
June 30, 2005

4. Cash, Cash Equivalents, and Investments

The city maintains a cash investment pool (Central Depository Account) that is used primarily by the General Fund and the Water and Sewer Enterprise Funds. Each fund's portion of this cash pool is displayed on the combined balance sheet as cash. Investments are separately held by several of the City's funds.

Cash includes amounts in demand deposits, interest bearing demand deposits, and money market accounts, or time deposits with state banks organized under Louisiana law and national banks having their principal offices in Louisiana. Cash, cash equivalents, and investments as of June 30, 2005 are classified in the accompanying financial statements as follows:

	Government- Wide Activities	Fiduciary Responsibilities	Total
Unrestricted cash and investments	\$ 2,834,292	\$ -	\$ 2,834,292
Restricted cash and investments	509,916	-	509,916
Agency fund cash and investments (not included in government-wide statement)	-	113,013	113,013
	<u>\$ 3,344,208</u>	<u>\$ 113,013</u>	<u>\$ 3,457,221</u>
 Total Cash at June 30, 2005			 \$ 2,395,560
Total Investments at June 30, 2005			<u>1,061,661</u>
Total Cash and Investments			<u>\$ 3,457,221</u>

Deposits, investments, and other (GASB 3 and 40 disclosures) as of June 30, 2005 consist of the following:

Deposits with Financial Institutions:	
<i>Interest-Bearing Demand Deposits</i>	\$ 2,322,003
Total Deposits and Investments	<u>\$ 2,322,003</u>
 Bank Balances:	
Insured (FDIC Insurance)	\$ 100,000
Collateralized:	
Collateral held by the City's agent in the City's name	-
Collateral held by the pledging bank's trust department in the City's name	3,272,121
Collateral held by the pledging bank's trust department not in the City's name	-
Uninsured and Uncollateralized	-
Total Deposits	<u>\$ 3,372,121</u>

These deposits are stated at cost, which approximates market. Under state law, these deposits (or the resulting bank balances) must be secured by federal deposit insurance or the pledge of securities owned by the fiscal agent bank. The market value of the pledged securities plus the federal deposit insurance must at all times equal the amount on deposit with the fiscal agent. These securities are held in the name of the pledging fiscal agent bank in a holding or custodial bank that is mutually acceptable to both parties.

City of Ponchatoula, Louisiana
Notes to Financial Statements (Continued)
June 30, 2005

As reflected on Exhibit A, the City has restricted and unrestricted cash totaling \$2,385,952 and restricted and unrestricted investments totaling \$958,256 at June 30, 2005. Total cash and investments from fiduciary responsibilities not reported on the government-wide financial statements were \$9,608 and \$103,405 respectively. Under state law, these deposits must be secured by federal deposit insurance or the pledge of securities owned by the bank. These pledged securities are held by and in the name of the fiscal agent bank but pledged to the City.

Even though the pledged securities are not held in the entity's name, Louisiana Revised Statute 39:1229 imposes a statutory requirement on the custodial bank to advertise and sell the pledged securities within 10 days of being notified by the City that the fiscal agent has failed to pay deposited funds upon demand.

As of June 30, 2005, the City was in compliance with state law which requires any uninsured cash balances with the fiscal agent bank to be adequately collateralized by a pledge of securities.

LAMP is administered by LAMP, Inc., a non-profit corporation organized under the laws of the State of Louisiana. Only local government entities having contracted to participate in LAMP have an investment interest in its pool of assets. The primary objective of LAMP is to provide a safe environment for the placement of public funds in short-term, high quality investments. The LAMP portfolio includes only securities and other obligations in which local governments in Louisiana are authorized to invest in accordance with LSA-R.S. 33:2955. Accordingly, LAMP investments are restricted to securities issued, guaranteed, or backed by the U.S. Treasury, the U.S. Government, or one of its agencies, enterprises, or instrumentalities, as well as repurchase agreements collateralized by those securities.

Effective August 1, 2001, LAMP's investment guidelines were amended to permit the investment in government-only money market funds. In its 2001 Regular Session, the Louisiana Legislature (Senate Bill No. 512, Act 701) enacted LSA-R.S. 33:2955(A)(1)(h) which allows all municipalities, parishes, school boards, and any other political subdivisions of the State to invest in "Investment grade (A-1/P-1) commercial paper of domestic United States corporations." Effective October 1, 2001, LAMP's Investment Guidelines were amended to allow the limited investment in A-1 or A-1+ commercial paper.

The dollar weighted average portfolio maturity of LAMP assets is restricted to not more than 90 days, and consists of no securities with a maturity in excess of 397 days. LAMP is designed to be highly liquid to give its participants immediate access to their account balances. The investments in LAMP are stated at fair value based on quoted market rates. The fair value is determined on a weekly basis by LAMP and the value of the position in the external investment pool is the same as the value of the pool shares.

LAMP, Inc. is subject to the regulatory oversight of the state treasurer and the board of directors. LAMP is not registered with the SEC as an investment company.

5. Receivables

In the government-wide statements, receivables consist of all revenues earned at year-end and not yet received. Allowances for uncollectible accounts receivable are based upon historical trends and the periodic aging of accounts receivable. Major receivable balances for the governmental activities include sales taxes, franchise taxes, and grants. Business-type activities report utility earnings as their major receivable.

In the fund financial statements, material receivables in governmental funds include revenue accruals such as sales tax, franchise tax, grants, and other similar intergovernmental revenues since they are usually both measurable and available. Non-exchange transactions collectible but not available are deferred in the fund

City of Ponchatoula, Louisiana
Notes to Financial Statements (Continued)
June 30, 2005

financial statements in accordance with the modified accrual basis, but not deferred in the government-wide financial statements in accordance with the accrual basis. Interest and investment earnings are recorded when earned only if paid within 60 days since they would be considered both measurable and available. Proprietary fund material receivables consist of all revenues earned at year-end and not yet received. Allowances for uncollectible accounts receivable are based upon historical trends and periodic accounts receivable aging.

The following is a summary of receivables for June 30, 2005, net of allowances for uncollectible amounts where applicable:

<u>Class of Receivable</u>	<u>General Fund</u>	<u>Special Revenue Funds</u>	<u>Proprietary Funds</u>	<u>Other Funds</u>
Taxes:				
Ad Valorem	\$ 1,684	\$ -	\$ -	\$ -
Sales and Use	-	373,410	-	-
Other	34,954	-	-	-
Intergovernmental - Grants:				
State	68,120	1,312	-	-
Other:				
Accounts	26,207	-	87,954	-
Notes	-	17,743	-	-
Other	-	-	-	259
Total	<u>\$ 130,965</u>	<u>\$ 392,465</u>	<u>\$ 87,954</u>	<u>\$ 259</u>

Uncollectible amounts due for Ad Valorem taxes, notes receivable and customers' utility receivables are recognized as bad debts through the establishment of an allowance account at the time information becomes available which would indicate the uncollectibility of the particular receivable. The following details the description and amount of the allowance accounts at June 30, 2005.

<u>Class of Receivable</u>	<u>General Fund</u>	<u>Special Revenue Funds</u>	<u>Proprietary Funds</u>	<u>Other Funds</u>
Taxes:				
Ad Valorem	\$ 7,698	\$ -	\$ -	\$ -
Other:				
Accounts	11,400	-	36,400	-
Total	<u>\$ 19,098</u>	<u>\$ -</u>	<u>\$ 36,400</u>	<u>\$ -</u>

City of Ponchatoula, Louisiana
Notes to Financial Statements (Continued)
June 30, 2005

6. Capital Assets

The following is a summary of the changes in capital assets for governmental funds for the fiscal year ended June 30, 2005:

	Balance 06/30/04	Increases	Decreases	Balance 06/30/05
Capital Assets Not Depreciated:				
Land and Land Improvements	\$ 294,258	\$ -	\$ -	\$ 294,258
Total Capital Assets Not Being Depreciated	\$ 294,258	\$ -	\$ -	\$ 294,258
Other Capital Assets:				
Buildings	\$ 2,228,531	\$ -	\$ -	\$ 2,228,531
Improvements	1,866,016	112,098	-	1,978,114
Infrastructure	6,101,856	252,241	-	6,354,097
Computers	101,196	22,749	-	123,945
Vehicles	877,605	22,135	-	899,740
Office Equipment	45,447	117	80	45,484
Furniture & Fixtures	103,904	3,765	1,950	105,719
Machinery & Equipment	211,130	19,787	2,690	228,227
Total Other Capital Assets	\$ 11,535,685	\$ 432,892	\$ 4,720	\$ 11,963,857
Less: Accumulated Depreciation:				
Buildings	\$ 981,424	\$ 55,374	\$ -	\$ 1,036,798
Improvements	380,077	54,302	-	434,379
Infrastructure	3,429,882	171,347	-	3,601,229
Computers	31,248	17,113	-	48,361
Vehicles	671,421	78,782	-	750,203
Office Equipment	36,531	2,172	62	38,641
Furniture and Fixtures	94,828	2,663	1,920	95,571
Machinery and Equipment	144,833	14,543	2,640	156,736
Total Accumulated Depreciation	\$ 5,770,244	\$ 396,296	\$ 4,622	\$ 6,161,918
Other Capital Assets, Net	\$ 5,765,441	\$ 36,596	\$ 98	\$ 5,801,939
Total	\$ 6,059,699	\$ 36,596	\$ 98	\$ 6,096,197

Government activities capital assets net of accumulated depreciation at June 30, 2005 are comprised of the following:

General Capital Assets, Net	\$ 6,096,197
Total	<u>\$ 6,096,197</u>

City of Ponchatoula, Louisiana
Notes to Financial Statements (Continued)
June 30, 2005

Depreciation was charged to governmental functions as follows:

General Government	\$ 29,068
Public Safety	89,545
Public Works	234,748
Cemetery	84
Culture and Recreation	35,160
Miscellaneous Programs	7,691
Total	<u>\$ 396,296</u>

The following is a summary of changes in capital assets for business-type activities for fiscal year ended June 30, 2005:

	Balance 06/30/04	Increases	Decreases	Balance 06/30/05
Land	\$ 95,423	\$ -	\$ -	\$ 95,423
Buildings	41,907	-	-	41,907
Water Wells, Lines, & Towers	2,555,555	28,376	-	2,583,931
Sewer Lines	4,688,675	20,011	-	4,708,686
Equipment and Vehicles	367,461	5,995	8,030	365,426
Wastewater Treatment Plant	2,486,617	132,950	-	2,619,567
	<u>\$ 10,235,638</u>	<u>\$ 187,332</u>	<u>\$ 8,030</u>	<u>\$ 10,414,940</u>
Less: Accumulated Depreciation				
Buildings and Equipment	3,092,603	251,506	7,507	3,336,602
Total	<u>\$ 7,143,035</u>	<u>\$ (64,174)</u>	<u>\$ 523</u>	<u>\$ 7,078,338</u>

Property, plant, and equipment are stated at cost, less an allowance for accumulated depreciation. Depreciation expense is computed using the straight-line method over the estimated useful lives as follows:

Buildings	40 Years
Equipment	3 - 20 Years
Infrastructure	25 Years

Capital outlays are reported as expenditures in the governmental funds; however, in the statement of activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. The adjustment from governmental funds to the government-wide statements are summarized as follows:

Primary Government:	
Capital Outlay	\$ 432,892
Depreciation Expense	(396,296)
Total Adjustment	<u>\$ 36,596</u>

City of Ponchatoula, Louisiana
Notes to Financial Statements (Continued)
June 30, 2005

7. Employee Pension Plan

A. Louisiana Municipal Employees Retirement System

The City provides pension benefits for all of its full-time employees through a joint contributory, defined contribution plan in the statewide Louisiana Municipal Employees' Retirement System (MERS). The Municipal Employees' Retirement System, State of Louisiana, is the administrator of a cost-sharing, multiple-employer plan.

The Municipal Employees' Retirement System, State of Louisiana was established by Act 356 of the 1954 regular session of the Legislature of the State of Louisiana, to provide retirement benefits to employees of all incorporated villages, towns, and cities within the state, which did not have their own retirement system and which elected to become members of the System.

The System is administered by a Board of Trustees composed of nine members, six of whom shall be active and contributing members of the System with at least ten years of creditable service, elected by the members of the System; one of whom shall be the president of the Louisiana Municipal Association who shall serve as an ex-officio member during his tenure; one of whom shall be the Chairman of the Senate Retirement Committee; and one of whom shall be the Chairman of the House Retirement Committee of the Legislature of Louisiana.

Act #569 of the year 1968 established by the Legislature of the State of Louisiana provides an optional method for municipalities to cancel Social Security and come under supplementary benefits in the Municipal Employees' Retirement System, effective on and after June 30, 1970.

Effective October 1, 1978, under Act #788, the "regular plan" and the "supplemental plan" were replaced, and are now known as Plan "A" and Plan "B". Plan A combines the original plan and the supplemental plan for those municipalities participating in both plans, while Plan B participates in only the original plan. The City elected to become a member of the System on June 27, 1966, and is a member of Plan B. There are presently 65 contributing municipalities in Plan A and 56 in Plan B.

Membership is mandatory as a condition of employment beginning on the date employed if the employee is on a permanent basis working at least thirty-five hours per week, not participating in another public funded retirement system and under age sixty (60) at date of employment. Those individuals paid jointly by a participating employer and the parish are not eligible for membership in the System.

Any member of Plan B can retire providing he meets one of the following criteria:

1. Age 55 with thirty (30) years of creditable service.
2. Age 60 with a minimum of ten (10) or more years of creditable service.
3. Under age 60 with ten (10) years of creditable service eligible for disability benefits.
4. Survivor's benefits require twenty (20) years of creditable service at death of member.

Generally, the monthly amount of the retirement allowance for any member of Plan B shall consist of an amount equal to two percent of the member's final compensation multiplied by his years of creditable service. However, under certain conditions as outlined in the statuses, the benefits are limited to specified amounts. A member is vested after ten (10) years, but he must leave his accumulated contributions in the

City of Ponchatoula, Louisiana
Notes to Financial Statements (Continued)
June 30, 2005

plan until retirement. If a member withdraws his own money, he is not entitled to the employer-financed monetary credits, even if he was vested. The plan provisions are adopted by the governing body of the entities, within the options available in the state statutes governing MERS and within the actuarial constraints also in the statutes.

The contribution rate for employees is 5.00% of earnable compensation and is established by state statute.

The employer contribution rate is 9.50% of members' earnings. The System also receives $\frac{1}{4}$ of 1% of Ad Valorem taxes collected within the respective parishes except for Orleans. Tax monies are apportioned between Plan A and Plan B in proportion to salaries of plan participants. The System also receives revenue sharing funds each year as appropriated by the Legislature. These additional sources of income are used as additional employer contributions; the remaining employer contributions are determined according to actuarial requirements and are set annually.

The City's total payroll in the fiscal year ended June 30, 2005 was \$1,349,550, and the City's contributions were based on a payroll of \$813,787. Both the City and the covered employees made the required contributions, amounting to \$117,999. There were no related party transactions.

Trend Information

Contributions required by state statute:

<u>Fiscal Year Ended</u>	<u>Required Contribution</u>	<u>Percentage Contribution</u>
June 30, 2003	\$ 104,568	100%
June 30, 2004	\$ 126,529	100%
June 30, 2005	\$ 117,999	100%

The System issues an annual publicly available financial report that includes financial statements and required supplementary information for the System. That report may be obtained by writing to the Municipal Employees' Retirement System of Louisiana, 7937 Office Park Boulevard, Baton Rouge, Louisiana 70809, or by calling (225) 925-4810.

All employees of the City are also members of the Social Security System.

B. Firefighters' Retirement System of Louisiana

Beginning in August 2000, full-time fire employees of the City began participating in the Louisiana Firefighters' Retirement System ("Fire System"), a multiple-employer public employee retirement system. The payroll for employees covered by the Fire System for the year ended June 30, 2005 was \$167,856; the City's total payroll was \$1,349,550.

All City fire employees who participate in the plan shall be eligible for retirement if he has 20 years or more of creditable service and is at least age 50, or 12 years or more creditable service and is at least age 55. Retirement benefits are equal to $3 \frac{1}{3}$ percent of average final compensation multiplied by the number of years of creditable service and is payable monthly for life. Average final compensation is the average annual earned compensation of an employee for any period of thirty-six successive or joined months of service during which the earned compensation was the highest. Benefits are not considered fully vested until the employee has attained both the age and years of service requirements that entitle

City of Ponchatoula, Louisiana
Notes to Financial Statements (Continued)
June 30, 2005

them to regular retirement benefits. The Fire System also provides death and disability benefits. Benefits are established by state statute.

The contribution rate for employees is 8.00% of earnable compensation and is established by state statute.

The employer contribution rate at June 30, 2005 is 24.00% of members' earnings.

The City's total payroll in the fiscal year ended June 30, 2005 was \$1,349,550, and the City's contributions were based on a payroll of \$167,856. Both the City and the covered employees made the required contributions, amounting to \$53,714. There were no related party transactions.

Trend Information

Contributions required by state statute:

<u>Fiscal Year Ended</u>	<u>Required Contribution</u>	<u>Percentage Contribution</u>
June 30, 2003	\$ 28,716	100%
June 30, 2004	\$ 41,364	100%
June 30, 2005	\$ 53,714	100%

The System issues an annual publicly available financial report that includes financial statements and required supplementary information for the System. That report may be obtained by writing to the Firefighters' Retirement System, Post Office Box 94095, Baton Rouge, Louisiana 70804, or by calling (225) 925-4060.

All employees of the City are also members of the Social Security System.

C. Municipal Police Employees Retirement System of Louisiana

Beginning in July 2000, full-time police employees of the City began participating in the Municipal Police Employees Retirement System ("Police System"), a multiple-employer public employee retirement system. The payroll for employees covered by the Police System for the year ended June 30, 2005 was \$307,652; the City's total payroll was \$1,349,550.

All City police employees who participate in the plan shall be eligible for retirement if he has 20 years or more of creditable service and is at least age 50, or 12 years or more creditable service and is at least age 55. Retirement benefits are equal to 3 1/3 percent of average final compensation multiplied by the number of years of creditable service and is payable monthly for life. Average final compensation is the average annual earned compensation of an employee for any period of thirty-six successive or joined months of service during which the earned compensation was the highest. Benefits are not considered fully vested until the employee has attained both the age and years of service requirements that entitle them to regular retirement benefits. The Police System also provides death and disability benefits. Benefits are established by state statute.

The contribution rate for employees is 7.50% of earnable compensation and is established by state statute.

The employer contribution rate is 21.50% of members' earnings.

City of Ponchatoula, Louisiana
Notes to Financial Statements (Continued)
June 30, 2005

The City's total payroll in the fiscal year ended June 30, 2005 was \$1,349,550, and the City's contributions were based on a payroll of \$307,652. Both the City and the covered employees made the required contributions, amounting to \$89,219. There were no related party transactions.

Trend Information

Contributions required by state statute:

<u>Fiscal Year Ended</u>	<u>Required Contribution</u>	<u>Percentage Contribution</u>
June 30, 2003	\$ 24,366	100%
June 30, 2004	\$ 42,779	100%
June 30, 2005	\$ 89,219	100%

The System issues an annual publicly available financial report that includes financial statements and required supplementary information for the System. That report may be obtained by writing to the Municipal Police Employees Retirement System of Louisiana, 8401 United Plaza Boulevard, Baton Rouge, Louisiana 70809-2250, or by calling (225) 929-7411.

All employees of the City are also members of the Social Security System.

8. Accounts, Salaries, and Other Payables

The following is a summary of payables at June 30, 2005:

<u>Class of Payable</u>	<u>General Fund</u>	<u>Special Revenue Funds</u>	<u>Proprietary Funds</u>
Accounts	\$ 84,043	\$ 3,740	\$ 11,199
Withholdings	10,680	-	-
Deferred Revenue	-	17,743	-
Other	33,210	-	18,274
Total	<u>\$ 127,933</u>	<u>\$ 21,483</u>	<u>\$ 29,473</u>

9. Compensated Absences

At June 30, 2005, employees of the City have accumulated and vested \$33,210 of employee leave benefits, which was computed in accordance with GASB Codification Section C60. Of this amount, \$33,210 is recorded as an obligation of the General Fund. The leave liability accounted for in the Enterprise Funds for employees of the Enterprise Funds is \$8,628.

10. Capital Lease Obligations

The City records items under capital leases as an asset and obligation in the accompanying financial statements. The following is a schedule of future minimum lease payments under capital leases, with the present value of the minimum lease payments, as of June 30, 2005:

City of Ponchatoula, Louisiana
Notes to Financial Statements (Continued)
June 30, 2005

	<u>Backhoe</u>	<u>Police Cars (3)</u>	<u>Police Car</u>	<u>Police Car</u>	<u>Total</u>
Fiscal Year:					
June 30, 2006	\$ 7,871	\$ 22,929	\$ 7,200	\$ 7,741	\$ 45,741
June 30, 2007	-	-	-	7,741	7,741
Total Minimum Lease Payments	\$ 7,871	\$ 22,929	\$ 7,200	\$ 15,482	\$ 53,482
Less: Amount Representing Interest	(185)	(1,061)	(376)	(1,088)	(2,710)
Present Value of Minimum Lease Payments	<u>\$ 7,686</u>	<u>\$ 21,868</u>	<u>\$ 6,824</u>	<u>\$ 14,394</u>	<u>\$ 50,772</u>

11. Long-Term Debt

The reporting entity's long-term debt is segregated between the amounts to be repaid from governmental activities and amounts to be repaid from business-type activities.

Governmental Activities:

As of June 30, 2005, the governmental long-term debt of the financial reporting entity consisted of the following:

Capital Lease Obligations:

\$45,507 Capital Lease Obligation payable to Case Credit dated 05/01/01; Due in 60 monthly installments of \$874.50; With interest at 5.75% (Payable from a pledge of the excess revenues of the General Fund).	\$ 7,686
\$65,654 Capital Lease Obligation payable to Ford Motor Credit dated 10/29/03; Due in 3 annual installments of \$22,928.84; With interest at 4.85% (Payable from a pledge of the excess revenues of the General Fund).	21,868
\$20,494 Capital Lease Obligation payable to Ford Motor Credit dated 05/28/04; Due in 3 annual installments of \$7,200.18; With interest at 5.50% (Payable from a pledge of the excess revenues of the General Fund).	6,824
\$22,135 Capital Lease Obligation payable to Ford Motor Credit dated 10/29/04; Due in 3 annual installments of \$7,740.95; With interest at 5.00% (Payable from a pledge of the excess revenues of the General Fund).	<u>14,394</u>
Total Capital Lease Obligations	<u>\$ 50,772</u>

City of Ponchatoula, Louisiana
Notes to Financial Statements (Continued)
June 30, 2005

Certificates of Indebtedness:

\$750,000 Certificate of Indebtedness dated October 21, 1998; Due in annual installments of \$60,000 - \$90,000 through September 1, 2008; Interest at 2.90% (Payable from a pledge of the excess revenues of the General Fund).	\$ 340,000
Total Certificates of Indebtedness	<u>\$ 340,000</u>

Public Improvement Bonds:

\$617,000 Sales Tax Refunding Bonds dated September 23, 2003; Due in annual installments of \$56,000 - \$122,000 through March 1, 2009; Interest at 2.74% (Payable from a pledge of the City's 1982 1% Sales and Use Tax).	\$ 455,000
Total Public Improvement Bonds	<u>\$ 455,000</u>
Total Government Activity Debt	<u>\$ 845,773</u>

As of June 30, 2005, the long-term debt payable from proprietary fund resources consisted of the following:

Sewer Revenue Bonds:

\$1,093,000 Series 2003 Sewer Revenue Refunding Bonds dated September 23, 2003, due in annual installments of \$60,000 - \$104,000 through March 1, 2012; Interest rate is 1.70% - 3.80% (Payable from a pledge of the City's sewer revenues).	<u>\$ 910,000</u>
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The following is a summary of changes in long-term debt for the year ended June 30, 2005:

Type of Debt	Balance at July 1, 2004	Leases or Bonds Issued	Bonds Retired and Other Redemptions	Balance at June 30, 2005	Amounts Due Within One Year
Governmental Activities:					
Capital Lease Obligations	\$ 72,659	\$ 22,135	\$ 44,022	\$ 50,772	\$ 45,741
Sales Tax Refunding Bonds	561,000	-	106,000	455,000	108,000
Certificate of Indebtedness	415,000	-	75,000	340,000	80,000
Total General Long-Term Debt	<u>\$ 1,048,659</u>	<u>\$ 22,135</u>	<u>\$ 225,022</u>	<u>\$ 845,772</u>	<u>\$ 233,741</u>
Business-Type Activities:					
Sewer Revenue Refunding Bonds	\$ 1,033,000	\$ -	\$ 123,000	\$ 910,000	\$ 125,000
Total Enterprise Fund Debt	<u>\$ 1,033,000</u>	<u>\$ -</u>	<u>\$ 123,000</u>	<u>\$ 910,000</u>	<u>\$ 125,000</u>

At June 30, 2005, the City has accumulated \$63,914 and \$309,730 in the debt service funds for future debt requirements for the Public Improvement Bonds and the Sewer Revenue Bonds, respectively. The annual

City of Ponchatoula, Louisiana
Notes to Financial Statements (Continued)
June 30, 2005

requirements to amortize all bonds and / or certificates outstanding at June 30, 2005, including interest of \$195,413 is as follows:

Year Ending Date	Sewer Revenue Bonds	Capital Lease Obligations	Certificate of Indebtedness	Sales Tax Refunding Bonds	Total
June 30, 2006	\$ 154,253	\$ 45,741	\$ 95,600	\$ 120,467	\$ 416,061
June 30, 2007	154,315	7,741	96,310	118,508	376,874
June 30, 2008	156,795	-	91,890	122,521	371,206
June 30, 2009	153,775	-	92,340	125,343	371,458
June 30, 2010	155,320	-	-	-	155,320
June 30, 2011 - 2012	260,267	-	-	-	260,267
	\$ 1,034,725	\$ 53,482	\$ 376,140	\$ 486,839	\$ 1,951,186
Interest Portion	(124,725)	(2,709)	(36,140)	(31,839)	(195,413)
	<u>\$ 910,000</u>	<u>\$ 50,773</u>	<u>\$ 340,000</u>	<u>\$ 455,000</u>	<u>\$ 1,755,773</u>

12. Dedication of Proceeds and Flow of Funds – Sales and Use Tax

Proceeds of the 2% sales and use tax levied by the City (2004 collections – \$2,098,054) are dedicated to the following purposes:

The bond resolution requires that the proceeds of the special one percent (1%) sales and use tax now being levied and collected by the City is to be deposited with the City's fiscal agent bank in a 1982 Sales Tax Fund. After payment of all reasonable and necessary costs and expenses of collecting the tax, certain monthly payments must be made from the 1982 Sales Tax Fund to the Series 2003 Sales Tax Refunding Bonds, which must be established with the City's fiscal agent bank. The payments into the sinking fund are made in amounts sufficient to pay the principal and interest installments currently and will continue monthly until March 2009, unless the bonds are called in advance of their maturity dates, in which event it is possible to reduce the required payments into the sinking fund.

Any monies remaining in the Sales Tax Fund on the 20th day of each month after making the required payments into the Series 2003 Sales Tax Refunding Bond Sinking Fund for the current month and for prior months during which the required payments may not have been made, is considered as surplus.

Such surplus may be used by the City for any of the purposes for which the imposition of the tax is authorized or for the purpose of retiring bonds herein authorized in advance of their maturities.

The balance in the Sinking Fund at June 30, 2005 was in accordance with the bond covenants.

13. Compliance with Sales Tax Refunding Bond Covenants

The City, through its governing authority, adopted Ordinance No. 591 on August 14, 2003 authorizing the issuance of Sales Tax Refunding Bonds, Series 2003, in an amount not to exceed \$617,000 for refunding of the Sales Tax Bonds, Series 1995. That bond resolution contained certain covenants and agreements in connection with the security and payment of the bonds. The major covenants contained in the bond resolution and the manner in which the City has complied with these covenants is described as follows:

City of Ponchatoula, Louisiana
Notes to Financial Statements (Continued)
June 30, 2005

Funds and Accounts – The ordinance requires the City to establish a sinking fund.

As of June 30, 2005, the City was in compliance with this bond covenant.

Other Requirements – The ordinance contains additional covenants regarding collection of tax, legal right to collection of tax, and other miscellaneous provisions.

As of June 30, 2005, the City was in compliance with these other bond covenants in all material respects.

14. Dedication of Proceeds and Flow of Funds – Sewer Revenues

The City, through its governing authority, adopted Ordinance No. 592 on August 14, 2003, authorizing the issuance of Sewer Revenue Refunding Bonds, Series 2003, in an amount not to exceed \$1,093,000 for the refunding of the Sewer Revenue Bonds, Series 1991 issued for the acquisition and construction of wastewater treatment facilities. In that ordinance, the revenues of the Sewer System are irrevocably and irrepealably pledged and dedicated in an amount sufficient for payment of the bonds authorized and interest as they become due and for other purposes. In that ordinance, certain funds were required to be established to account for the receipt and disbursement of Sewer System revenues. An analysis of these accounts is provided as follows:

Revenue Fund – The ordinance requires that all revenues of the Sewer System shall be deposited daily in a separately identifiable account to be established with the City's fiscal agent bank and designated as the "Revenue Fund." The revenues deposited into the Sewer Revenue Fund shall be expended in the following priority:

Operation and Maintenance Fund – From the Revenue Fund, the City shall pay all reasonable and necessary costs and expenses of the operating and maintaining the Sewer System. The City presently uses the cash pool identified as the Central Depository Account to account for all costs and expenses of maintaining the Sewer System.

Transfers are made from the Revenue Fund to the Central Depository Account in amounts sufficient to cover the costs and expenses of maintaining the Sewer System.

Sinking Fund – After the payment of all reasonable and necessary costs and expenses of maintaining the Sewer System, monies from the Revenue Fund shall be transferred to a separately identifiable account to be established with the City's fiscal agent bank and designated as the "Sinking Fund" in amounts sufficient to pay promptly and fully the principal of and interest on the bonds as they severally become due and payable. Monies from the Revenue Fund shall be transferred into the Sinking Fund monthly in advance on or before the twentieth (20th) day of each month of each year.

The payments will continue monthly until March 2012, unless the bonds are called in advance of their maturity dates, in which event it is possible to reduce the required payments into the sinking fund.

Renewal and Replacement Fund – From the Revenue Fund, there shall be transferred monthly on or before the twentieth (20th) day of each month of each year to a separately identifiable account to be established with the City's fiscal agent bank and designated as the "Renewal and Replacement Fund" an amount equal to five percent (5%) of the Net Revenues of the Sewer System collected in the prior calendar month until such fund accumulates \$50,000. All monies in the Renewal and Replacement Fund may be used for the purpose of paying the costs of any unusual and extraordinary maintenance and any repairs, replacements, extensions, and

City of Ponchatoula, Louisiana
Notes to Financial Statements (Continued)
June 30, 2005

improvements to the Sewer System. Money accumulated in this fund may also be used to pay principal and interest on the bonds falling due at any time there is not sufficient money for payment in the Sinking Fund or the Reserve Fund.

All monies remaining in the Revenue Fund after all required deposits into the bond funds described herein shall be considered surplus and may be used for the purpose of retiring bonds in advance of their maturity or for any other lawful purpose.

As of June 30, 2005, balances in the Sinking Fund and Renewal and Replacement Fund were in accordance with the bond covenants.

15. Compliance with Sewer Revenue Refunding Bond Covenants

The City, through its governing authority, adopted Ordinance No. 592 on August 14, 2003 authorizing the issuance of Sewer Revenue Refunding Bonds, Series 2003 in an amount not to exceed \$1,093,000 for refunding the Sewer Revenue Bonds, Series 1991 issued for the acquisition and construction of wastewater treatment facilities. That ordinance contained certain covenants and agreements in connection with the security and payment of the bonds. The major covenants contained in the ordinance and agreement and the manner in which the City has complied with these covenants is described as follows:

Rate Covenant – In the ordinance, the City covenants to fix, establish, maintain, and collect such rates, fees, rents, and other charges of the services and facilities of the Sewer System and to revise the rates whenever necessary as will always provide revenues in each fiscal year sufficient to pay (i) the reasonable and necessary expenses of operation the System, (ii) one hundred fifteen percent (115%) of the required deposits to the Sinking Fund for such fiscal year, (iii) all other payments required for such fiscal year by the bond resolution and loan agreement, and (iv) all other obligation or indebtedness payable out of the revenues for such fiscal year. In connection therewith, the City adopted an ordinance which established sewer user classifications, set specific sewer rates, and provided a detailed procedure for annual review and adjustment of sewer rates.

For the fiscal year ended June 30, 2005, the City was in compliance with the rate covenant.

In connection with the rate covenant, the ordinance also contained specific procedures with regards to delinquent sewer customers. The City agreed that the failure of any person to pay the charges for any service rendered by the Sewer System within thirty (30) days of the date on which it is due shall cause such charge to become delinquent and a delinquent charge of ten percent (10%) of the delinquent amount shall be assessed. If a delinquent account is not paid within thirty (30) days of the date of delinquency, the City will shut off water services to the affected premises. All delinquent accounts shall bear interest at the rate of six percent (6%) per annum.

At June 30, 2005, the City was in compliance with this bond covenant.

Records, Accounts, and Audit Requirements – In the ordinance, the City is required to maintain and keep accurate records and accounts for the Sewer System separate and distinct from its other records and accounts. These Sewer System records shall be maintained in accordance with generally accepted government accounting standards and shall be audited annually by an independent certified public accountant.

As of June 30, 2005, the City was in compliance with this bond covenant.

City of Ponchatoula, Louisiana
Notes to Financial Statements (Continued)
June 30, 2005

Insurance and Fidelity Bonds – In the ordinance, the City is required to maintain full coverage of insurance on the System. The City is also required to obtain fidelity bonds on all employees in a position of authority or in possession of money derived from the operation of the System.

As of June 30, 2005, the City was in compliance with this bond covenant.

Other Requirements – The ordinance contains additional covenants regarding the utilization of funds, appointment of engineer, and other miscellaneous provisions.

As of June 30, 2005, the City was in compliance with these other bond covenants in all material respects.

16. Compliance with Certificates of Indebtedness Covenants

The City, through its governing authority, adopted Ordinance No. 510 on July 23, 1998, authorizing the issuance of Certificates of Indebtedness, Series 1998, in an amount not to exceed \$750,000 for public improvements in the City. That ordinance contained certain covenants and agreements in connection with the security and payment of the certificates. The major covenants contained in the ordinance and the manner in which the City has complied with these covenants is described as follows:

Audit Requirements – In the ordinance the City is required to cause an audit of its records and accounts to be made no later than three (3) months after the close of each fiscal year.

As of June 30, 2005, the City was in compliance with this ordinance covenant as it was under contract with a certified public accountant for an audit of its records for the year ended June 30, 2005.

Sinking Fund – In the ordinance, the City is required to create a special fund to be known as “City of Ponchatoula, State of Louisiana, Certificates of Indebtedness, Series 1998, Sinking Fund” to be used for payment of the principal of and the interest on the certificates. The City is required to deposit in the Sinking Fund at least three (3) days in advance of each interest payment date, funds fully sufficient to promptly pay the maturing principal and / or interest so falling due on such date.

As of June 30, 2005, the City was in compliance with this bond covenant in all material respects.

Other Requirements – The ordinance contains additional covenants regarding the collection of tax, legal right to the collection of tax, and other miscellaneous provisions.

As of June 30, 2005, the City was in compliance with these other ordinance covenants in all material respects.

City of Ponchatoula, Louisiana
Notes to Financial Statements (Continued)
June 30, 2005

17. Interfund Receivables / Payables

	<u>Due From</u>	<u>Due To</u>
General Fund:		
Water Enterprise Fund	\$ -	\$ 1,473
Sewer Enterprise Fund	<u>2,385</u>	<u>-</u>
Total General Fund	\$ 2,385	\$ 1,473
Water Enterprise Fund:		
General Fund	\$ 1,473	\$ -
Total Water Enterprise Fund	\$ 1,473	\$ -
Sewer Enterprise Fund:		
General Fund	\$ -	\$ 2,385
Total Sewer Enterprise Fund	\$ -	\$ 2,385
Total All Funds	<u>\$ 3,858</u>	<u>\$ 3,858</u>

18. Interfund Transfers

The following is a summary of the operating transfers between funds during the fiscal year ended June 30, 2005:

	<u>Transfer In From</u>	<u>Transfer Out To</u>
General Fund:		
1965 Sales Tax Fund	\$ 940,000	\$ -
1982 Sales Tax Fund	687,500	-
Police Millage Fund	149,376	-
Fire Millage Fund	53,000	-
1998 Sales Tax Sinking Fund	-	89,250
Cemetery Endowment Fund	<u>2,296</u>	<u>-</u>
Total General Fund	\$ 1,832,172	\$ 89,250
Special Revenue Funds:		
General Fund	\$ -	\$ 1,829,876
2003 Series ST Bond Sinking Fund	<u>-</u>	<u>135,074</u>
Total Special Revenue Funds	\$ -	\$ 1,964,950
Debt Service Funds:		
General Fund	\$ 89,250	\$ -
1982 Sales Tax Fund	<u>135,074</u>	<u>-</u>
Total Debt Service Funds	\$ 224,324	\$ -
Fiduciary Fund:		
General Fund	\$ -	\$ 2,296
Total Fiduciary Fund	<u>-</u>	<u>2,296</u>
Total All Funds	<u>\$ 2,056,496</u>	<u>\$ 2,056,496</u>

City of Ponchatoula, Louisiana
Notes to Financial Statements (Continued)
June 30, 2005

19. Reserved and Designated Retained Earnings / Fund Balances

The City records reserves and dedications to indicate that a portion of the fund equity is legally segregated for a specific future use. The following details the description and amount of all reserves and dedications used by the City as of June 30, 2005.

Reserved for Debt Service	
FY 1998 Sales Tax Sinking Fund	\$ 68,439
FY 2003 Series ST Bond Sinking Fund	63,914
Reserved for Revenue Bond Debt Service	
Sewer Enterprise Fund	175,084
Reserved for Endowment Principal - Nonexpendable Trust Fund	113,013
Reserved for Cemetery Maintenance - Nonexpendable Trust Fund	259
	<u>\$ 420,709</u>

20. Deferred Revenues and Obligations Under Grant Agreement

On March 19, 1998, the City entered into a contract with the State of Louisiana – Division of Administration for a Louisiana Community Development Block Grant funded by the United States Department of Housing and Urban Development in the amount of \$168,000. The purpose of this grant is to provide \$150,000 to provide a long-term permanent financing loan to J & M Industries, Inc. for the purpose of purchasing equipment. The original loan is a maximum of \$150,000 at 6.25% interest, and is to be repaid by J & M Industries, Inc. in 84 monthly installments of \$2,209. As of June 30, 2005, the amount received by J & M Industries, Inc. under this loan agreement totaled \$28,721. Principal payments through June 30, 2005 total \$26,542. The balance of this note outstanding at June 30, 2005 is \$17,743.

Under the terms of the agreement, the City is the maker of this note with J & M Industries, Inc. and holds a security interest in all furniture, fixtures, and equipment that are purchased with LCDBG funds. However, the City is required to return to the State of Louisiana – Division of Administration all the principal, interest, or other payments received from J & M Industries, Inc. under the terms of this note. In fact, the contract requires J & M Industries, Inc. to make the note payments directly to the Division of Administration. The City is required by the LCDBG contract to monitor the repayment of these funds and perform other activities in connection with the LCDBG contract. The City is contingently liable to the Division of Administration for repayment of this note should J & M Industries, Inc. default on the note and the City not fulfill its obligations under the contract.

Based on the foregoing information, the deferred revenues at June 30, 2005 are \$17,743, the long-term debt created by this agreement on June 30, 2005 is \$17,743, and the outstanding note receivable from J & M Industries on June 30, 2005 is \$17,743.

21. Ad Valorem Taxes

The 1974 Louisiana Constitution (Article 7, Section 18) provided that land and improvements for residential purposes be assessed at 10% of fair market value; other property and electric cooperative properties, excluding land, are to be assessed at 15%; and public service properties, excluding land, are to be assessed at 25% of fair market value. Fair market value is determined by the Tangipahoa Parish Assessor on all property

City of Ponchatoula, Louisiana
Notes to Financial Statements (Continued)
June 30, 2005

subject to taxation except public service properties, which are valued by the Louisiana Tax Commission (LRS 47:1957). The correctness of assessments by the assessor is subject to review and certification by the Louisiana Tax Commission. The assessor is required to reappraise all property subject to taxation at intervals of not more than four years. The City bills and collects its own property taxes using the assessed values determined by the Tangipahoa Parish Tax Assessor.

The 2003 property tax calendar is as follows:

Levy Date	June 28, 2004
Millage Rates Adopted	June 28, 2004
Tax Bills Mailed	December 3, 2004
Due Date	December 31, 2004
Lien Date	January 1, 2005

State law requires the City to collect property taxes in the calendar year in which the assessment is made. Property taxes become delinquent January 1 of the following year. If taxes are not paid by the due date, taxes bear interest at the rate of one and one-fourth percent per month until the taxes are paid (LRS 47:2101). After notice is given to the delinquent taxpayers, the Sheriff is required by the Constitution of the State of Louisiana to sell the least quantity of property necessary to settle the taxes and interest owed (LRS 47:2181). Therefore, there are no delinquent taxes at year-end.

All property taxes are recorded in governmental funds, and as explained in Note 1(c), revenues in the governmental funds are recognized in the accounting period in which they become available and measurable. Property taxes are considered measurable in the calendar year of the tax levy. Accordingly, the entire tax roll less an estimate for uncollectible taxes is recorded as revenue in the current calendar year. Uncollectible taxes are those taxes which based on past experience will not be collected in the subsequent year and are primarily due to subsequent adjustments to the tax roll. All of the net taxes receivable at the end of the year are considered available. Available means due, or past due and receivable within the current period, and collected within the current period or expected to be collected soon enough thereafter to pay liabilities of the current period. Property taxes are considered available because they are substantially collected by the tax collector within 60 days subsequent to year-end and are therefore available to liquidate liabilities of the current period.

For the year ended June 30, 2005, taxes of 16.52 mills were levied on property with taxable assessed valuations totaling \$31,943,613 and were dedicated as follows:

	Authorized Millage	Levied Millage	Levied Taxes	Expiration Date
General Corporate Purposes	6.52	6.52	\$ 208,272	-
Police Millage Fund	6.00	6.00	191,662	2010
Fire Millage Fund	2.00	2.00	63,887	2010
Equipment Millage Fund	2.00	2.00	63,887	2010
	<u>16.52</u>	<u>16.52</u>	<u>\$ 527,708</u>	

Property taxes receivable and estimated uncollectible taxes for the City as of June 30, 2005 are as follows:

City of Ponchatoula, Louisiana
Notes to Financial Statements (Continued)
June 30, 2005

	Property Tax Receivable	Estimated Uncollectible Property Taxes	Net Property Taxes Receivable
General Fund	\$ 9,382	\$ 7,698	\$ 1,684
Police Millage Fund	-	-	-
Fire Millage Fund	-	-	-
Equipment Millage Fund	-	-	-
	<u>\$ 9,382</u>	<u>\$ 7,698</u>	<u>\$ 1,684</u>

The following are the principal taxpayers for the City:

Taxpayer	Type of Business	Assessed Valuation	Percentage of Total Assessed Valuation
Elmer Candy Corporation	Retail	\$ 1,004,830	3.15%
Homestead Bank	Banking	803,512	2.52%
First Guaranty Bank	Banking	742,780	2.33%
DCA Food Industries, Inc.	Retail	663,756	2.08%
Hancock Bank of LA	Banking	643,099	2.01%
J & M Industries, Inc.	Retail	617,986	1.93%
BellSouth Telecommunications	Utility	575,810	1.80%
AmSouth Bank	Banking	568,160	1.78%
Gabriel Building Supply Co.	Retail	513,435	1.61%
Gateway Ford, Inc.	Retail	397,125	1.24%
		<u>\$ 6,530,493</u>	

22. Federal, State, and Other Governments Financial Assistance

A. Grants and Direct Financial Assistance from Other Governmental Units

Federal and State grant programs represent an important source of funding to finance housing, employment, construction, and social programs that are beneficial to the City. These funds are recorded in the General, Special Revenue, Capital Projects, and Enterprise Funds. Receivables are established when expenditures are incurred. The grants normally specify the purpose for which funds may be used and are audited annually in accordance with Office of Management and Budget Circular A-133 under the "Single Audit Concept," when applicable.

For the year ended June 30, 2005, the following amounts under various grants and entitlements are recorded as revenues, subsidies, or additions to contributions in the accompanying financial statements:

City of Ponchatoula, Louisiana
Notes to Financial Statements (Continued)
June 30, 2005

	General Fund	Special Revenue Funds	Total
Federal Government:			
Revenue Equalization - PILOT	\$ 6,898	\$ -	\$ 6,898
FY 1991 LCDBG			
Economic Development	-	26,542	26,542
FY 2002 LCDBG			
Housing Rehabilitation	-	149,744	149,744
	<u>\$ 6,898</u>	<u>\$ 176,286</u>	<u>\$ 183,184</u>
State of Louisiana:			
Equipment Millage	\$ -	\$ 18,449	\$ 18,449
Beer Taxes	16,219	-	16,219
Rural Development	203,595	-	203,595
Law Enforcement Grant	2,240	-	2,240
	<u>\$ 222,054</u>	<u>\$ 18,449</u>	<u>\$ 240,503</u>
Tangipahoa Parish Council:			
Fire Insurance Fee	\$ 17,704	\$ -	\$ 17,704
	<u>\$ 17,704</u>	<u>\$ -</u>	<u>\$ 17,704</u>
Tangipahoa Parish Fire District #2:			
Fire Protection Grant	\$ 136,345	\$ -	\$ 136,345
	<u>\$ 136,345</u>	<u>\$ -</u>	<u>\$ 136,345</u>

B. On-Behalf Payments for Salaries and Benefits

During 1998, the City implemented GASB Statement No. 24, *Accounting and Financial Reporting for Certain Grants and Other Financial Assistance*, which requires the City to report in the financial statements on-behalf salary and fringe benefit payments made by the state to certain City employees.

Supplementary salary payments are made by the state directly to certain groups of employees. The City is not legally responsible for these salaries. Therefore, the basis for recognizing the revenue and expenditure payments is the actual state contribution. For FY 2005, the state paid supplemental salaries to the fire and law enforcement employees of the City. The City is required to pay from its own budget the payroll taxes and retirement contributions on these on-behalf payments.

On-behalf payments recorded as revenues and expenditures in the financial statements are as follows:

	State Supplemental Salaries
Policeman Supplemental Pay	\$ 60,630
Fireman Supplemental Pay	18,000
Total On-Behalf Payments	<u>\$ 78,630</u>

City of Ponchatoula, Louisiana
Notes to Financial Statements (Continued)
June 30, 2005

23. Segments of Enterprise Activities

Some services provided by the City are financed by user charges – water and sewerage system. The significant financial data for these enterprises are as follows:

	Water System	Sewerage System	Total
Operating Revenues	\$ 285,372	\$ 793,714	\$ 1,079,086
Operating Expenses	\$ 147,196	\$ 429,609	\$ 576,805
Depreciation & Amortization	\$ 62,174	\$ 191,175	\$ 253,349
Operating Income (Loss)	\$ 76,002	\$ 172,930	\$ 248,932
Net Income (Loss)	\$ 91,028	\$ 152,930	\$ 243,958
Beginning Net Assets	\$ 2,416,205	\$ 4,547,693	\$ 6,963,898
Change in Net Assets	\$ 91,028	\$ 152,930	\$ 243,958
Ending Net Assets	\$ 2,507,233	\$ 4,700,623	\$ 7,207,856
Working Capital	\$ 700,262	\$ 31,082	\$ 731,344
Property, Plant, & Equipment:			
Additions	\$ 34,372	\$ 152,961	\$ 187,333
Deletions	\$ 281	\$ 7,750	\$ 8,031
Total Assets	\$ 2,714,480	\$ 5,639,628	\$ 8,354,108
Obligations Payable	\$ 207,247	\$ 26,620	\$ 233,867
Revenue Bonds Payable	\$ -	\$ 910,000	\$ 910,000
Equity	\$ 2,507,233	\$ 4,700,623	\$ 7,207,856
Cash Flows:			
Operating Activities	\$ 144,646	\$ 374,550	\$ 519,196
Noncapital Financing Activities	\$ (1,845)	\$ (6,553)	\$ (8,398)
Capital & Related Financing Activities	\$ (34,372)	\$ (306,852)	\$ (341,224)
Investing Activities	\$ 180,129	\$ 9,948	\$ 190,077
Beginning Cash & Cash Equivalents	\$ 214,652	\$ 160,107	\$ 374,759
Ending Cash & Cash Equivalents	\$ 503,210	\$ 231,200	\$ 734,410

24. Subsequent Event

On August 29, 2005, the City of Ponchatoula's wastewater treatment facility was badly damaged due to the effects of Hurricane Katrina. The cost of repairing the damage to the facility has been determined to be \$784,605. These repairs must be done immediately and will be funded 90% by the Federal Emergency Management Agency (FEMA), or approximately \$706,145. The remaining 10% of the costs, or approximately \$78,460 will be funded by the City.

Required Supplemental Information

City of Ponchatoula, Louisiana
Statement of Revenues, Expenditures, and Changes in Fund Balance –
Budget (GAAP Basis) and Actual
General Fund
For the Year Ended June 30, 2005

Schedule 1

	Original Budget	Final Budget	Actual Amounts - Budgetary Basis	Variance with Final Budget Favorable / (Unfavorable)
Revenues:				
Taxes	\$ 378,950	\$ 424,100	\$ 404,546	\$ (19,554)
Licenses and Permits	356,800	428,325	425,313	(3,012)
Intergovernmental	231,000	214,035	258,918	44,883
Fines and Forfeitures	62,500	208,350	213,337	4,987
Sanitation Service Fees	336,000	314,000	312,186	(1,814)
Miscellaneous	459,707	430,947	365,757	(65,190)
Total Revenues	\$ 1,824,957	\$ 2,019,757	\$ 1,980,057	\$ (39,700)
Expenditures:				
Current:				
General Government	\$ 712,262	\$ 698,202	\$ 796,795	\$ (98,593)
Public Safety	1,435,179	1,455,221	1,447,442	7,779
Public Works	957,652	880,393	909,595	(29,202)
Cemetery	44,750	44,930	44,361	569
Culture and Recreation	193,872	159,338	149,187	10,151
Community Development	11,434	15,709	15,454	255
Miscellaneous Programs	133,842	137,042	20,198	116,844
Capital Outlay	239,039	230,964	410,842	(179,878)
Debt Service:				
Principal	112,929	79,464	44,022	35,442
Interest	-	-	3,468	(3,468)
Total Expenditures	\$ 3,840,959	\$ 3,701,263	\$ 3,841,364	\$ (140,101)
Excess (Deficiency) of Revenues Over Expenditures	\$ (2,016,002)	\$ (1,681,506)	\$ (1,861,307)	\$ (179,801)
Other Financial Sources (Uses):				
Transfers In	\$ 1,957,000	\$ 1,957,000	\$ 1,829,876	\$ (127,124)
Transfers Out	(85,950)	(86,200)	(86,954)	(754)
Sale of Capital Assets	-	15,865	15,989	124
Proceeds from Capital Leases	50,000	25,000	22,135	(2,865)
Excess (Deficiency) of Revenues and Other Sources over Expenditures and Other Uses	\$ (94,952)	\$ 230,159	\$ (80,261)	\$ (310,420)
Fund Balance - Beginning of the Year -				
Originally Stated	\$ 460,977	\$ 688,269	\$ 688,269	\$ -
Prior Period Adjustment	\$ -	\$ -	\$ (16,718)	\$ (16,718)
Fund Balance - Beginning of the Year - Restated	\$ 460,977	\$ 688,269	\$ 671,551	\$ (16,718)
Fund Balance - End of the Year	\$ 366,025	\$ 918,428	\$ 591,290	\$ (327,138)

See auditor's report.

City of Ponchatoula, Louisiana
Statement of Revenues, Expenditures, and Changes in Fund Balance –
Budget (GAAP Basis) and Actual
1965 Sales Tax Fund
For the Year Ended June 30, 2005

Schedule 2

	Original Budget	Final Budget	Actual Amounts - Budgetary Basis	Variance with Final Budget Favorable / (Unfavorable)
Revenues:				
Sales Taxes	\$ 960,000	\$ 1,037,740	\$ 1,049,027	\$ 11,287
Investment Interest	6,500	14,000	13,451	(549)
Total Revenues	\$ 966,500	\$ 1,051,740	\$ 1,062,478	\$ 10,738
Expenditures:				
General Government:				
Audit Expense	\$ 500	\$ 500	\$ 500	\$ -
Collection Fees	6,240	6,640	6,822	(182)
Total Expenditures	\$ 6,740	\$ 7,140	\$ 7,322	\$ (182)
Excess of Revenues over Expenditures	\$ 959,760	\$ 1,044,600	\$ 1,055,156	\$ 10,556
Other Financing Sources (Uses):				
Operating Transfers In (Out):				
General Fund	\$ (940,000)	\$ (940,000)	\$ (940,000)	\$ -
Total Other Financing Sources (Uses)	\$ (940,000)	\$ (940,000)	\$ (940,000)	\$ -
Excess (Deficiency) of Revenues Over Expenditures and Other Uses	\$ 19,760	\$ 104,600	\$ 115,156	\$ 10,556
Fund Balance - Beginning of the Year	\$ 464,245	\$ 516,839	\$ 516,839	\$ -
Fund Balance - End of the Year	\$ 484,005	\$ 621,439	\$ 631,995	\$ 10,556

See auditor's report.

City of Ponchatoula, Louisiana
Statement of Revenues, Expenditures, and Changes in Fund Balance –
Budget (GAAP Basis) and Actual
1982 Sales Tax Fund
For the Year Ended June 30, 2005

Schedule 3

	Original Budget	Final Budget	Actual Amounts - Budgetary Basis	Variance with Final Budget Favorable / (Unfavorable)
Revenues:				
Sales Taxes	\$ 960,000	\$ 1,037,740	\$ 1,049,027	\$ 11,287
Investment Interest	6,300	10,750	10,610	(140)
Total Revenues	\$ 966,300	\$ 1,048,490	\$ 1,059,637	\$ 11,147
Expenditures:				
General Government:				
Audit Expense	\$ 500	\$ 500	\$ 500	\$ -
Collection Fees	6,240	6,640	6,822	(182)
Total Expenditures	\$ 6,740	\$ 7,140	\$ 7,322	\$ (182)
Excess of Revenues over Expenditures	\$ 959,560	\$ 1,041,350	\$ 1,052,315	\$ 10,965
Other Financing Sources (Uses):				
Operating Transfers In (Out):				
General Fund	\$ (805,000)	\$ (805,000)	\$ (687,500)	\$ 117,500
Series ST - 1994 Bond Sinking Fund	(145,000)	(145,000)	(135,074)	9,926
Total Other Financing Sources (Uses)	\$ (950,000)	\$ (950,000)	\$ (822,574)	\$ 127,426
Excess (Deficiency) of Revenues Over Expenditures and Other Uses	\$ 9,560	\$ 91,350	\$ 229,741	\$ 138,391
Fund Balance - Beginning of the Year	\$ 432,748	\$ 487,053	\$ 487,053	\$ -
Fund Balance - End of the Year	\$ 442,308	\$ 578,403	\$ 716,794	\$ 138,391

See auditor's report.

Other Supplemental Information

City of Ponchatoula, Louisiana
Combining Balance Sheet
Non-Major Governmental Funds – Summary
June 30, 2005

	Special Revenue					Debt Service			
	1997					2003			
	Fireman Pay Millage Fund	Policeman Pay Millage Fund	Equipment Millage Fund	LCDBG Economic Dev. Fund	LCDBG Housing Rehab Fund	FY 1998 Sales Tax Sinking Fund	Series ST Bond Sinking Fund	Total Non-Major Funds	
Assets									
Cash	\$ 57	\$ 82,634	\$ 193,365	\$ 161,561	\$ 16	\$ 68,439	\$ 63,914	\$ 569,986	
Investments	35,024	-	-	-	-	-	-	35,024	
Receivables, Net	-	-	-	17,743	-	-	-	17,743	
Due from Other Governments	-	-	-	-	1,312	-	-	1,312	
Total Assets	\$ 35,081	\$ 82,634	\$ 193,365	\$ 161,561	\$ 1,328	\$ 68,439	\$ 63,914	\$ 624,065	
Liabilities & Fund Balance									
Liabilities									
Accounts Payable	\$ -	\$ -	\$ -	\$ -	\$ 1,312	\$ -	\$ -	\$ 1,312	
Deferred Revenue	-	-	-	17,743	-	-	-	17,743	
Total Liabilities	\$ -	\$ -	\$ -	\$ 17,743	\$ 1,312	\$ -	\$ -	\$ 19,055	
Fund Balance									
Reserved for Debt Service	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 68,439	\$ 63,914	\$ 132,353	
Unreserved, Designated	15,941	-	-	-	-	-	-	15,941	
Unreserved, Undesignated	19,140	82,634	193,365	161,561	16	-	-	456,716	
Total Fund Balance	\$ 35,081	\$ 82,634	\$ 193,365	\$ 161,561	\$ 16	\$ 68,439	\$ 63,914	\$ 605,010	
Total Liabilities and Fund Balance	\$ 35,081	\$ 82,634	\$ 193,365	\$ 161,561	\$ 1,328	\$ 68,439	\$ 63,914	\$ 624,065	

See auditor's report.

City of Ponchatoula, Louisiana
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Non-Major Governmental Funds – Summary
For the Year Ended June 30, 2005

	Special Revenue				Debt Service			
	1997		2002		2003		2003	
	Fireman	Policeman	Equipment	LCDBG	LCDBG	FY 1998	Series ST	Total
Mausoleum	Pay Millage	Pay Millage	Millage	Economic	Housing	Sinking Fund	Bond	Non-Major
Trust Fund	Fund	Fund	Fund	Dev. Fund	Rehab Fund	Sinking Fund	Sinking Fund	Funds
Revenues:								
Ad Valorem Taxes	\$ -	\$ 63,478	\$ 190,430	\$ 63,478	\$ -	\$ -	\$ -	\$ 317,386
Grants	-	-	-	18,449	26,542	-	-	194,735
Investment Interest	701	1,549	3,440	2,628	2,179	995	1,356	12,848
Total Revenues	\$ 701	\$ 65,027	\$ 193,870	\$ 84,555	\$ 28,721	\$ 149,744	\$ 1,356	\$ 524,969
Expenditures:								
Current:								
General Government	\$ -	\$ 500	\$ 500	\$ 500	\$ -	\$ -	\$ -	\$ 1,500
Community Development	-	-	-	-	28,721	-	-	178,465
Capital Outlay	-	-	-	22,050	-	-	-	22,050
Debt Service:								
Principal	-	-	-	-	-	75,000	106,000	181,000
Interest	-	-	-	-	-	10,948	15,371	26,319
Other	-	-	-	-	-	500	225	725
Total Expenditures	\$ -	\$ 500	\$ 500	\$ 22,550	\$ 28,721	\$ 86,448	\$ 121,596	\$ 410,059
Excess (Deficiency) of								
Revenues over Expenditures	\$ 701	\$ 64,527	\$ 193,370	\$ 62,005	\$ -	\$ (85,453)	\$ (120,240)	\$ 114,910
Other Financing Sources (Uses):								
Transfers In	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 89,250	\$ 135,074	\$ 224,324
Transfers Out	-	(53,000)	(149,376)	-	-	-	-	(202,376)
Total Other Financing Sources (Uses)	\$ -	\$ (53,000)	\$ (149,376)	\$ -	\$ -	\$ 89,250	\$ 135,074	\$ 21,948
Excess (Deficiency) of Revenues over								
Expenditures and Other Uses	\$ 701	\$ 11,527	\$ 43,994	\$ 62,005	\$ -	\$ 3,797	\$ 14,834	\$ 136,858
Fund Balance - Beginning of the Year	\$ 34,380	\$ 71,107	\$ 149,371	\$ 99,556	\$ -	\$ 64,642	\$ 49,080	\$ 468,152
Fund Balance - End of the Year	\$ 35,081	\$ 82,634	\$ 193,365	\$ 161,561	\$ -	\$ 68,439	\$ 63,914	\$ 605,010

See auditor's report.

City of Ponchatoula, Louisiana
Schedule of Compensation Paid Elected Officials
June 30, 2005

Schedule 6

Name and Address	Position	Term of Office	Salary
Robert F. Zabbia 211 North Seventh Street Ponchatoula, LA 70454 (985) 386-9768	Mayor	July 1, 2004 - June 30, 2008	\$ 47,654
David Vitter 225 Eighth Street Drive Ponchatoula, LA 70454 (985) 386-6548	Police Chief	July 1, 2004 - June 30, 2008	43,100
C.W. Kinchen 248 West Hickory Street Ponchatoula, LA 70454 (985) 386-6275	City Council District A	July 1, 2004 - June 30, 2008	6,000
Wayne F. Foster 245 North Baronne Street Ponchatoula, LA 70454 (985) 386-5902	City Council District B	July 1, 2004 - June 30, 2008	6,000
James W. McKnight, III 350 West Magnolia Street Ponchatoula, LA 70454 (985) 386-6779	City Council District C	July 1, 2004 - June 30, 2008	6,000
Perry Graves 208 Washington Street Ponchatoula, LA 70454 (985) 386-9706	City Council District D	July 1, 2004 - June 30, 2008	6,000
Vergil J. Sandifer 485 East Cypress Street Ponchatoula, LA 70454 (985) 386-8373	City Council District E	July 1, 2004 - June 30, 2008	6,000
			\$ 120,754

See auditor's report.

City of Ponchatoula, Louisiana
Schedule of Insurance Coverage in Force (Unaudited)
June 30, 2005

Schedule 7

Insurance Company	Coverage	Amount	Expiration Date
LA Municipal Risk Management Agency	Automobile Liability Bodily Injury / Physical Damage	\$ 500,000	05/01/08
LA Municipal Risk Management Agency	Commercial General Liability Premises / Operations	\$ 500,000	05/01/08
	Products / Completed Operations	\$ 500,000	05/01/08
	Medical Payments		
	Per Person	\$ 1,000	05/01/08
	Per Accident	\$ 10,000	05/01/08
	Fire Legal Liability		
	Per Occurrence	\$ 50,000	05/01/08
LA Municipal Risk Management Agency	Law Enforcement Officers' Comprehensive Liability Personal Injury / Physical Damage	\$ 500,000	05/01/08
LA Municipal Risk Management Agency	Public Officials Errors and Omissions	\$ 500,000	05/01/08
LA Municipal Risk Management Agency	Workmen's Compensation Bodily Injury by Accident	\$ 100,000	01/01/05
	Bodily Injury by Disease		
	Policy Limit	\$ 500,000	01/01/05
	Per Person	\$ 100,000	01/01/05
Peerless Insurance Co.	Ponchatoula Collinswood Museum Damages to Premises	\$ 40,000	08/03/05
	Medical Expense Limit		
	Per Person	\$ 5,000	08/03/05
	Personal & Advertising Injury Limit	\$ 300,000	08/03/05
	Each Occurrence Limit	\$ 300,000	08/03/05
	General Aggregate Limit	\$ 600,000	08/03/05
American Casualty Co.	Automobile Policy Comprehensive and Collision	\$ -	07/12/05
Transcontinental Insurance Company	Government Crime Inside Premises Theft of Money or Securities	\$ 4,000	07/12/05
	Outside Premises	\$ 4,000	07/12/05

(Continued)

City of Ponchatoula, Louisiana
Schedule of Insurance Coverage in Force (Unaudited)
June 30, 2005

Schedule 7
(Continued)

<u>Insurance Company</u>	<u>Coverage</u>	<u>Amount</u>	<u>Expiration Date</u>
Transcontinental Insurance Company	Commercial Policy		
	Fire / Police Station - Building	\$ 396,400	07/12/05
	Fire / Police Station - Contents	\$ 41,200	07/12/05
	Fire Station #2 - Building	\$ 163,600	07/12/05
	Fire Station #2 - Contents	\$ 7,700	07/12/05
	Police Annex - Building	\$ 125,900	07/12/05
	Police Annex - Contents	\$ 13,000	07/12/05
	Community Center - Building	\$ 1,407,000	07/12/05
	Community Center - Contents	\$ 65,100	07/12/05
	Mausoleum Building	\$ 132,000	07/12/05
	Storage / Meeting Room - Building	\$ 37,382	07/12/05
	Storage / Meeting Room - Contents	\$ 10,000	07/12/05
	Equipment Building	\$ 104,732	07/12/05
	Water Treatment Plant - Building	\$ 30,629	07/12/05
	Water Treatment Plant - Equipment	\$ 117,900	07/12/05
	Flat Car / Comb. Storage - Building	\$ 9,017	07/12/05
	Flat Car / Comb. Storage - Contents	\$ 29,400	07/12/05
	City Hall - Building	\$ 666,329	07/12/05
	City Hall - Contents	\$ 44,700	07/12/05
	City Hall - Storage	\$ 32,200	07/12/05
	Information Center / Chamber of Commerce	\$ 16,100	07/12/05
	Tourist Restroom	\$ 79,500	07/12/05
	1976 Sewer Cleaner #A131117	\$ 10,394	07/12/05
	1986 Case Backhoe #8973738	\$ 19,360	07/12/05
	1986 J.D. Tractor #CH08505020474	\$ 5,700	07/12/05
	1986 J.D. Tractor W / Disc #7003 / #3894	\$ 2,257	07/12/05
	1984 Intl Tractor #B6000009B005745-X	\$ 16,000	07/12/05
Continental Casualty	Boiler & Machinery	\$ -	10/12/05

See auditor's report.

**Other Independent Auditor's Reports and
Findings and Recommendations**

**Independent Auditor's Report on Internal Control over
Financial Reporting and on Compliance and Other Matters Based on an
Audit of Financial Statements Performed in Accordance with
*Government Auditing Standards***

Durnin & James

CERTIFIED PUBLIC ACCOUNTANTS
A PROFESSIONAL CORPORATION
HAMMOND, LA

John N. Durnin, CPA
Dennis E. James, CPA

Member
American Institute of CPA's
Society of Louisiana CPA's

November 7, 2005

Independent Auditor's Report on Internal Control over Financial Reporting and on
Compliance and Other Matters Based on an Audit of Financial Statements
Performed in Accordance with *Government Auditing Standards*

The Honorable Robert F. Zabbia, Mayor
and the Members of the City Council
City of Ponchatoula, Louisiana

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the remaining aggregate fund information of the City of Ponchatoula, Louisiana, as of and for the year ended June 30, 2005, which collectively comprise the City of Ponchatoula's basic financial statements, and have issued our report thereon dated November 7, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the City of Ponchatoula, Louisiana's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the City's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying schedule of current year audit findings as Reference Numbers 05-01 through 05-03.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weakness. However, of the reportable conditions described above, we believe 05-01 and 05-02 to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

The Honorable Robert F. Zabbia, Mayor
and City Council Members
City of Ponchatoula, Louisiana

This report is intended solely for the information of management and the Office of the Legislative Auditor, State of Louisiana, and federal awarding agencies and pass-through entities. This restriction is not intended to limit the distribution of this report, which, upon acceptance by the City of Ponchatoula, Louisiana, is a matter of public record.

Respectfully submitted,

A handwritten signature in cursive script that reads "Durnin & James, CPAs". The signature is written in dark ink and is positioned to the right of the "Respectfully submitted," text.

Durnin & James, CPAs
(A Professional Corporation)

Findings and Recommendations

City of Ponchatoula, Louisiana
Current Year Audit Findings
For the Year Ended June 30, 2005

Findings and Recommendations

Internal Control

05-01 – Additional Safeguards over Cash Disbursements Procedures

Condition:

During our audit and testing of cash disbursements procedures, we noted that the City's Finance Manager who is authorized to sign checks also maintains the accounting records and receives the bank statements unopened from the bank and reconciles the bank account without the review of an employee who is independent of the accounting function. Additional safeguards are needed in this area to make sure that adequate controls are maintained over the cash disbursement function. The cause of this condition appears to be an inadequate design of controls over cash disbursement processing. As a result, allowing the person responsible for maintaining the accounting records and reconciling the bank statement to receive bank statements unopened from the bank without the review of someone independent of the accounting function creates an environment in which unintentional or intentional errors could occur and not be detected in a timely manner.

Recommendation:

We recommend that an employee at city hall who is independent of the accounting function receive the bank statements unopened from the bank, review all cleared items for appropriateness and document their review of all cleared items by initialing the face of the bank statement. Once this review is completed, the bank statements can be routed to the City's Finance Manager for processing.

Management's Response:

Beginning with the September 2005 bank statements, the City initiated a procedure that directs all bank statements, as they are received, to an employee not involved in the accounting process. This employee opens the statements, reviews all cleared items for appropriateness and documents the review by initialing the face of each statement. Upon completion of the task, the bank statements are turned over to the City's Finance Manager for further processing.

05-02 – Inadequate Internal Controls for Cash Receipts Processing

Condition:

During our audit and testing of cash receipts processing, we selected a sample of 44 manually written receipts to test. Out of our sample of 44 individual receipts selected for testing, we noted three instances in which the money was not included in that day's deposit. A manual receipt issued on May 9, 2005, for \$194.00 was not deposited until June 1, 2005. A manual receipt issued on May 13, 2005, for \$261.00 was not deposited until June 1, 2005. A manual receipt issued on May 23, 2005, for \$25.00 was not deposited until June 1, 2005. The City conducted an investigation and the teller involved was terminated from employment with the City. In addition, while reviewing the completed receipt books we noted that the control copies of the receipts in the books is perforated and in at least 37 instances the control copies of the receipts were missing from the completed receipt books. Improvement is needed in the processing of manual cash receipts to ensure that all monies received by the City are adequately accounted for. The cause of this condition appears to be a lack of adequate internal controls over cash receipts processing that we have identified as follows:

City of Ponchatoula, Louisiana
Current Year Audit Findings
For the Year Ended June 30, 2005

- The receipt books are inadequate because the control copy of the receipt books used by the City is perforated which allows for the control copy to be easily removed from the completed book.
- Custody of unissued receipts books and a log of receipt books issued and completed is not maintained at City Hall.
- The control copy of manual receipts issued at the Police Department and at City Hall are not being reconciled to the day's collections by supervisory personnel who are independent of the teller function.
- Money collected for occupational licenses was segregated from the day's deposit and not deposited until a later date when the actual occupational licenses were batch processed.

Inadequate receipt books combined with the failure to reconcile the control copy of the receipts issued to the day's collections by supervisory personnel who are independent of the teller function created an environment in which money was removed from the daily deposit and not replace until a later date.

Recommendation:

We recommend the following actions be taken to improve existing internal controls over cash receipts processing:

- Order new receipt books with a control copy that cannot be easily removed from the completed receipt book.
- Once the new receipt books are received, replace all receipt books used by the Police Department and City Hall with the new receipt books. Maintain custody of all unissued receipt books in the vault at City Hall and prepare a log to account for the issuance and return of completed receipt books.
- At the end of each day, all receipt books should be brought to City Hall and the control copy of the receipts issued reconciled to the day's collections. This reconciliation should be performed by someone independent of the teller function and documented by initialing the control copy of the receipts. All receipts issued must be accounted for on a daily basis.
- All monies collected during the day for occupational licenses should be included in the day's deposit. A copy of the cash register computer report should be attached to the occupational license applications and the copy of the manual receipt issued and given to the City Tax Collector for processing.

We believe these recommendations can be implemented at minimal cost to the City and will greatly improve existing internal controls over cash receipts processing.

Management's Response:

To correct this finding, the City will order new cash receipt books that have the control copy non-removable. When the new books are received, they will be distributed to the Police Department and to the clerks in City Hall. All unused books will be maintained in the vault. All completed books will also be maintained in the vault. A book inventory and book numbering system has been developed for cash receipt processing.

Each day all open cash receipt books, both in City Hall and at the Police Department, will be reviewed by an employee who is independent of the teller function. At that time, the books will be reviewed for all receipts and associated cash, then the control copy initialed.

City of Ponchatoula, Louisiana
Current Year Audit Findings
For the Year Ended June 30, 2005

Provisions have been made to include all monies collected for occupational licenses to be deposited the same day of its collection. A copy of the cash register computer report shall be attached to the day's occupational license applications along with the copy of the manual receipt issued. These will be stored in the vault for future processing by the Tax Collector.

05-03 – Additional Procedures for Payroll Time and Attendance Records

Condition:

During our audit and testing of payroll procedures, we noted several instances in which employees at the Police Department were paid regular salary on days that their time and attendance records reflected that they had requested leave time. Improvement is needed in the procedures for time and attendance recordkeeping at the Police Station to make sure that employees requesting paid leave time have the accumulated, unused leave time available to be taken. This condition occurred because detailed time and attendance records and approved requests for paid leave time are submitted at the end of each month instead of each week as required by the payroll clerk prior to the preparation of the weekly payroll checks. As a result, failure to submit weekly time and attendance records to the payroll clerk prior to preparing the weekly payroll on Thursday creates an environment in which employees could be paid leave time when sufficient accumulated unused leave time is not available for the employee

Recommendation:

We recommend that detailed time and attendance records along with approved employee leave forms for all City departments be turned into the payroll clerk on a weekly prior to preparation of the weekly payroll on Thursday.

Management's Response:

A procedure to have weekly reporting of time and attendance records for all city employees has been established. Approved employee leave forms for all City departments along with attendance records are to be submitted to the Payroll Clerk weekly prior to the preparation of payroll checks on Thursday.

Compliance and Other Matters

None

Management Letter Suggestions

None

Corrective Action Plan for Current Year Audit Findings

City of Ponchatoula, Louisiana
 Corrective Action Plan for Current Year Audit Findings
 For the Year Ended June 30, 2005

<u>Ref. #</u>	<u>Description of Findings</u>	<u>Corrective Action Plan</u>	<u>Name of Contact Person</u>	<u>Anticipated Completion Date</u>
<u>Internal Control:</u>				
05-01	Additional Safeguards over Cash Disbursement Procedures	Bank statements to be opened and reviewed by non-accounting personnel	Liz LeSaicherre	06/30/06
05-02	Inadequate Internal Controls for Cash Receipts Processing	Improve procedures related to manual receipts	Liz LeSaicherre	06/30/06
05-03	Additional Procedures for Payroll Time and Attendance Records	Attendance records be approved and submitted weekly to the payroll clerk	Liz LeSaicherre	06/30/06

Compliance:

None

Management Letter Suggestions:

None

Note: This schedule has been prepared by the management of the City of Ponchatoula, Louisiana.

Summary Schedule of Prior Audit Findings

City of Ponchatoula, Louisiana
Summary Schedule of Prior Audit Findings
For the Year Ended June 30, 2005

Reference #	Fiscal Year Findings Initially Occurred	Description of Findings	Corrective Action Taken	Plan Corrective Action - Partial Corrective Action Taken
<u>Compliance:</u>				
04-01	June 30, 2003	Violation of code of ethics for public employees	Yes	Employee Code of Conduct developed
04-02	June 30, 2004	Failure to provide documentation for mayor's vehicle reimbursement	Yes	Documentation submitted prior to vehicle reimbursement
04-03	June 30, 2004	Failure to receive State Bond Commission Approval on leases	Yes	State Bond Commission approval received on leases
<u>Internal Control:</u>				
04-04	June 30, 2003	Lack of adequate internal controls for police department cash receipts	Yes	Cash receipts process for police department moved to City Hall
04-05	June 30, 2003	Police Department receipts not deposited daily	Yes	Cash now deposited on a daily basis
04-06	June 30, 2004	Inadequate Cooperative Endeavor Agreement	Yes	Cooperative Endeavor Agreement revised
04-07	June 30, 2004	Transfer of surplus funds from Water Fund to General Fund	Yes	Surplus funds not transferred to General Fund
<u>Management Letter:</u>				
04-08	June 30, 2004	Unallowable expenditures in the Equipment Millage Fund	Yes	General Fund reimbursed for unallowable expenditures
04-09	June 30, 2004	Code of Conduct Policy	Yes	Employee Code of Conduct developed

Note: This schedule has been prepared by the management of the City of Ponchatoula, Louisiana.